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Merkel's Deceptive *"Don't Wake the Voters"* Election Strategy

By Klaus C. Engelen

And the mystery is why her opponent, Peer Steinbrück, is also hiding the bad news.

Strange things are happening in this year's German election campaign. The Christian Democrat-led center-right coalition under Chancellor Angela Merkel along with the opposition Social Democrats and Greens are hiding disastrous developments from the public that could cost generations of Germans a large part of their present standard of living. The parties are avoiding an open discussion about the mounting cost of the euro rescue operation and the new risks of the planned European banking union in order to stay within the politically correct framework of European solidarity.

The parties are all following the same strategy of deceiving voters while on the campaign trail. They are doing this under the cover of pursuing European solidarity, without telling potential voters that under the new eurozone institutional framework and burden-sharing rules, they might be gambling away much of the wealth that Germany's hard-working citizens have accumulated during the last few decades.

Most Berlin politicians are aware, from government reports and expert studies, of how Germany, as the largest net payer country in the euro area, is being forced into an ever-larger burden sharing through the banking channels. But the politicians don't give potential voters the facts.

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They praise how things will get better when the European Central Bank begins supervision of the large systemically important banks in the eurozone, but hide the negative side of burdening an already severely damaged ECB with bank supervision.

And Berlin's political heavyweights on both sides of the aisle support the story from Brussels that under the new rules for direct bank recapitalization, "the vicious circle between banks and sovereigns can be broken," and that the new framework for recovery and resolution of credit institutions through its "bail-in" crusade will make sure that in the future, shareholders, subordinated debtors, senior debtors, and large depositors—in that order—will finance the bank restructuring, not the taxpayers. What they don't tell Germany's taxpayers is that the bail-in principle will apply to state aid to troubled banks under the EU State Aid Law after August 1, 2013, but will only become effective in general bank resolution after January 1, 2018.

There is a consensus among the major parties to ignore the new anti-euro party, Alternative für Deutschland (AfD), founded by Bernd Lucke, an economics professor from Hamburg University. In its official program, approved in mid-April, AfD calls for an "orderly dismantling" of the eurozone and a return to national currencies. While AfD followers consider themselves normal citizens and taxpayers, as a party they have been denounced as scaremongers and populists. The struggling new anti-euro party is short of the 5 percent needed to make it into the Bundestag lower house in September. Two in three Germans support the common currency.

Angela Merkel along with the opposition Social Democrats and Greens are hiding disastrous developments from the public that could cost generations of Germans a large part of their present standard of living.

Major legislation to make permanent changes to the European institutional architecture has been pushed through without allowing an open debate. The fact that about one-third of the billions of euros allocated for bank restructuring in the eurozone periphery has been

Peer Steinbrück

Has He Already Surrendered?

What is so strange about the 2013 German national election campaign is that the largest opposition party, the Social Democrats, and Merkel's challenger, Peer Steinbrück, are acting like part of the government cover-up. They are failing dismally to raise the bread-and-butter issues for the voters. They are not adequately addressing escalating euro rescue costs. They are ignoring the eurozone loss transfers through the ECB's zero interest rates that are taking income away from northern savers and pensioners to rescue southern debtors and banks. They are also not addressing the mounting threats to the country's fiscal capacity that are needed to finance Germany's costly "Sozialstaat" in the years to come.

Instead of opening discussions with voters on the new dimensions of eurozone burden-sharing and Germany losing large parts of its savings and fiscal capacity in the coming banking union, the former "worker's party" leadership is acting like it is already part of a new "grand coalition" Merkel government.

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wasted is hidden from taxpayers not only by the government but also by Merkel's challenger. And EU laws are broken or respected as it suits the political elites.

Imagine that in the United States or United Kingdom, government had pushed through the legislature the biggest loss of national sovereignty of the post-war era, and neither the parliamentary opposition nor the public and the media raised the issue in an election year. That's what happened in the week in which *The Economist* came out with a special report on Germany under the title "The reluctant hegemon." Shortly before midnight on June 13, 2013, an overwhelming majority of German legislators needed only forty-five minutes of debate to pass a law under which the German representative at the EU Council is enabled to transfer executive bank supervisory powers from the German Federal Financial Supervisory Authority (BaFin) to the ECB. The loss of sovereignty was only addressed by a few dissenters.

The fact that about one-third of the billions of euros allocated for bank restructuring in the eurozone periphery has been wasted is hidden from taxpayers not only by the government but also by Merkel's challenger.

Sharon Bowles, British Liberal Democrat and member of the European Parliament, who heads the European Parliament's Economic and Monetary Committee, considers the vote on the legislative package establishing the Single Supervisory Mechanism at the ECB and aligning the working of the recently established European Banking Authority in a historical perspective as "a bigger loss of sovereignty" (for those countries taking part in European banking union) than the introduction of the euro.

Let's further imagine that not only the German finance ministry but also the major opposition party, the Social Democrats, are sitting on scandalous numbers bringing showing that billions in German and European tax receipts—about one-third of the rescue funds provided for bank restructuring—in Greece and other struggling eurozone banking systems have been squandered by letting bank management pay out to hybrid bank investors and subordinated creditors.

Let's also point out that Merkel and Finance Minister Wolfgang Schäuble—to the horror of most German-speaking EU law experts—adopted the position, advanced by the French, the EU Commission, the ECB, and Club Med leaders, that Article 127(6) of the Treaty on the Functioning of the European Union would do as legal basis to transfer national banking supervisory powers to the ECB. But moving into election campaign mode, Merkel and Schäuble came out as defenders of EU law. They discovered that Article 114 of the Treaty offered no legal basis for the Single Resolution Mechanism and Fund the EU Commission proposes.

MERKEL'S HOLD-OFF, SITTING OUT STRATEGY

When Chancellor Merkel—in early spring of 2010—was confronted with the alarming prospect of a defaulting Greece, she held off on making urgent support decisions until after the May 9 state elections in North Rhine-Westphalia, Germany's most populous state. As it turned out, this didn't help since her Christian Democratic Union lost the state election to the Social Democrats and the Greens.

This, however, didn't change Merkel's instinct to secure political power by neutralizing potential controversy as soon and as much as possible. Since coming to power in the "grand coalition" of her conservative CDU/CSU bloc with the Social Democrats in fall of 2005, she has perfected her strategy of "sitting out" controversies and of "holding off" decisions.

Some see Merkel tiptoeing towards her third term in the chancellor's office. "Don't wake up the voters" is dominating the campaign strategy during Europe's deepest economic and social crisis after entering monetary union. Highly explosive issues such as plugging the holes in Greece or making risky steps on the road to eurozone banking union are postponed. As a strong and circumspect leader, she is able to put her ruling party followers behind Berlin's official line when fac-

ing the voters on such controversial issues as energy security, euro rescue, and banking union. Some see this as the most fateful voter deceit in post-war German history since so much national sovereignty and fiscal capacity was given away on a non-retrievable basis to the European bureaucrats.

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Instead of opening discussions with voters on the new dimensions of eurozone burden-sharing and Germany losing large parts of its savings and fiscal capacity in the coming banking union, the former "worker's party" leadership is acting like it is already part of a new "grand coalition" Merkel government.

Steinbrück's unmitigated European solidarity stance—not shared by key SPD legislators nor by large segments of ordinary people who see that the rich in the eurozone periphery are only getting richer in the crisis—may have dragged down the SPD further in the view of voters.

Since there isn't a day when Schäuble doesn't make news from the euro rescue or the banking union trenches, even traditional SPD and Green voters are wondering why Steinbrück isn't talking about the problems and issues that Schäuble is struggling with.

And as journalist Quentin Peel recently noted in the *Financial Times:* "Outside Germany, everyone seems to be waiting with bated breath for the outcome of the German general election. In Brussels and Paris, London and Washington, the general view is that nothing can be decided before September 22, for fear of upsetting the re-election plans of Angela Merkel, the German chancellor."

Her basic election strategy: To use her personal popularity to sweep the not-so-successful center-right coalition back into government. With most polls showing the CDU-led bloc about 15 percentage points ahead of the Social Democrats, there's a chance that she could continue her current coalition with the pro-business Free Democratic Party which recently has picked up lost voters to get over the 5 percentage point threshold for entering Parliament.

Steinbrück's Credibility Problem

Peer Steinbrück, the Social Democratic challenger, served as finance minister in the Merkel-led "grand coalition" from 2005 to 2009. From the outset, he made clear that he would not serve again under Merkel in a new coalition. He offers an SPD election agenda focused on social issues such as introducing a minimum wage, better child care provisions, and fighting rent increases. He also talks about the need for more infrastructure investments. As a hard-line supporter of the radical labor market reforms introduced under former SPD Chancellor Gerhard Schröder, Steinbrück has a credibility problem with Social Democrat voters who still feel betrayed by the Agenda 2010 reforms. These brought radical cuts in unemployment payments and social security benefits, changing the livelihoods of millions of working men and women who had brought the Social Democrats to power in 1998. On the other hand, corporations received huge tax cuts on windfall profits when selling equity stakes by not having to pay taxes for hidden reserves.

This darker background may explain why Merkel's challenger is not addressing many issues that matter to German taxpayers and savers.

Steinbrück's new role as Merkel's challenger also became more complicated when traditional working-class SPD voters learned that since leaving office, Steinbrück had become a euro millionaire, appearing often as a highly paid speaker at events where the finance industry footed the bill.

So far, Steinbrück has failed to turn his role as top crisis manager in the banking meltdown of 2007–2008 into voter support in the polls.

With his September 2012 proposals on banking and finance, Steinbrück positioned the SPD in favor

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of empowering European institutions, which runs counter to some segments of his party. His proposals included placing the ECB at the center of supervision of systemic banks, establishing a European bank resolution fund for systemic banks, and calling for tight regulation of proprietary trading by banks, along with regulatory limitation of investment banking, separation of investment banking from corporate and retail banking, tight restrictions on shadow banking, and bans on commodity speculation, naked short selling, and high-frequency trading.

As the election campaign progresses, Steinbrück has been sticking to the overall strategy of keeping controversial European issues out of the debate as much as possible. He thinks that attacking Merkel on her overall euro rescue policies may not pay, since the Social Democrats have voted in favor of all the euro rescue operations. They especially supported the €500 billion rescue fund, the European Stability Mechanism.

Steinbrück is challenging Merkel, however, on her austerity policies in the debt-laden eurozone periphery that have brought economic decline and unemployment to the region—in particular for youth—at unprecedented levels. He is telling the voters instead that Germany must give more support to the struggling euro periphery, especially for financing economic growth, supporting small- and medium-sized enterprises, and creating more jobs for the young. But as Mark Schieritz writes in the weekly *Die Zeit,* "Peer Steinbrück insults the intelligence of the voters with his suggestion to fund a Marshall Plan for southern Europe out of existing EU funds and the proceeds from the financial transaction tax."

In light of the poor progress of the SPD's election campaign with Steinbrück at the top of the ticket, the internal differences and tensions between key SPD legislators and Steinbrück's campaign team should not be overlooked.

For example, the SPD Bundestag legislators took a different stance from Steinbrück when they had to vote on the historic law to enable the ECB as lead bank supervisor.

While the SPD legislators on the finance and budget committees—with the backing of SPD party

Waste Coverup

The EU Commission, the International Monetary Fund, and the ECB, in collusion with national treasuries including the German finance ministry, are covering up the wasted billions in bank rescue operations in Greece, Cyprus, and Spain, according to a study commissioned by Germany's Green Party and conducted by Achim Dübel of Finpolconsult.

Dübel analyzed how the managements of seven zombie banks used about €90 billion in official rescue funds in recapitalization, and he found that about €30 billion—about a third of the funds—were wasted. One error was that euro governments bought ordinary shares in the banks. These shares are fully loss-absorbing. In contrast, the U.S. government bought preference shares, thus reducing risks to taxpayers. Another way governments mishandled the bank rescue task was the waste of time before conducting the rescue. This allowed creditors to withdraw their deposits before the rescue was officially announced.

Dübel cites the Bankia recapitalization as an example, where €2 billion in deposits disappeared before the Spanish government had to bail out the bank. A major factor driving up rescue costs for taxpayers was allowing bank managements to pay out hybrid investors and subordinated creditors without forcing them to accept bail-in haircuts. A key finding from the sample of eight eurozone bank restructurings is that the financial elites in the crisis countries pushed a broad and deep "decapitalization"—that is, plundering the existing capital base in order to avoid any losses to investors and creditors. To put it another way, they optimized bailouts and minimized bail-ins of hybrid investors or subordinated creditors.

The Greens seized on the study's findings to argue that the rescue policies were extremely wasteful for taxpayers. The Green Party's financial spokesmen Gerhard Schick and Sven Giegold argued that the Finpolconsult study showed the urgent need for a strong European bank resolution authority that so far has been resisted by the German government.

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leader Sigmar Gabriel—urged the Merkel government to empower the ECB with the Single Supervisory Mechanism only in the framework of a sunset law until changes in the EU Treaty were made, Steinbrück was in favor of putting into law a definite bank supervision mandate for the ECB. This was the position of the ruling center-right Merkel coalition and the Green Party.

The SPD amendment demanded the German government insist on a sunset rule in further negotiations so that the transfer of banking supervision to the ECB would be structured as a temporary move. Manfred Zöllmer, who introduced the SPD amendment, saw an urgent need for EU Treaty changes, as does the Bundesbank. According to the SPD amendment, the German government should push to establish a solid legal basis for the SSM and also for the other two legs of banking union, bank resolution and deposit insurance. After such Treaty changes, a new European institution independent from the ECB could take over banking supervision.

As it turned out, the lower house whips of the Merkel coalition were so sure of their overwhelming support for the Single Supervisory Mechanism that they didn't even bother to ask for a name vote. In contrast, the SPD required a name vote for its amendment. The SPD sunset amendment for the transfer of bank supervisory powers to the ECB was defeated by the ruling coalition parties 310 to 130 with 97 abstentions.

The parties are all following the same strategy of deceiving voters while on the campaign trail.

In this respect, the SPD—as it has done before in its 150-year history—defended the law and the country's constitution while the center-right majority followed the opportunistic priorities of their leaders.

As an afterthought, it is revealing that in the letter German Finance Minister Schäuble wrote to EU Commissioner Barnier on Berlin's "no" to the EU Commission proposal for a centralized Single Resolution Mechanism and Fund, the treasury chief for the first time indirectly admitted openly that the German government embarked on the establishment of the controversial Single Supervisory Mechanism without a sound legal basis.

Instead of proposing a "Marshall Plan" for southern Europe based on shaky funding, Steinbrück should have told the voters how billions of euros provided by German taxpayers are making the rich even richer in bank restructurings in Greece, Cyprus, and Spain, for instance. Some observers cannot understand why Steinbrück and his campaign staff blocked the publication of a major study commissioned by the SPD members of the Bundestag Budget Committee into how European rescue funds and loans from the Eurosystem in the form of Emergency Liquidity Assistance have been misused by bank managements. In the case of Cyprus, these funds were paid out to hybrid investors and subordinated creditors.

However, a broader study by the same expert, Achim Dübel of Finpolconsult, commissioned by two members of the Green Party, Finance Committee spokesman Gerhard Schick in the Bundestag and European Parliament member Sven Giegold, analyzed the use of rescue funds by the managements of seven zombie banks in the eurozone periphery. Dübel found

The Forgotten Ones

Bernd Lucke

There is a consensus among the major parties to ignore the new anti-euro party, Alternative für Deutschland (AfD), founded by Bernd Lucke, an economics professor from Hamburg University. In its official program, approved in mid-April, AfD calls for an "orderly dismantling" of the eurozone and a return to national currencies. While AfD followers consider themselves normal citizens and taxpayers, as a party they have been denounced as scaremongers and populists.

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that from about €90 billion in European rescue funds and liquidity support, about €30 billion was wasted because of bank restructuring delays and paying out to hybrid investors and subordinated creditors.

But when Steinbrück argues that bank supervision and bank resolution on the supra-European level will be qualitatively better than what national bank supervisors delivered in the lead-up to the euro crisis, most SPD party veterans with long Brussels and international experience in bank supervision and bank regulation consider such a verdict highly unjustified.

Steinbrück touched a raw nerve with a bureaucracy that for many years was misused by a financially ignorant political class. For Steinbrück, rating a Club Med-dominated bank supervision staff at the ECB level high on the professional rating scale while badmouthing the domestic career bank supervisors and regulators was considered—as a veteran official retorted—"adding insult to injury by someone who was more part of the problem than part of the solution."

In this way, Steinbrück caused bad blood and resentment in important circles, which might not be helpful to his election chances.

When making such statements, Steinbrück indeed has little credibility. As economic minister, finance minister, and state governor of North Rhine-Westphalia from 1998 to 2005, recalls a former high official from his home state, "Steinbrück has left banking on a road to destruction. He had a key role in supervising the giant WestLB in the run-up to its melt-

Schäuble Versus Barnier

German Finance Minister Wolfgang Schäuble had warned EU Commissioner for Internal Market and Services Michel Barnier against presenting the proposal on a Single Resolution Mechanism and Fund without the needed sound legal basis. When the EU Commission went ahead, Schäuble responded in a July 11, 2013, letter to "Dear Michel" that the Commission proposal "regrettably envisages too high a degree of centralization with regard to the boundaries of the existing state of primary law. In other words, the proposal does not match the current legal, political, and economic realities and would create major risks. In particular, the suggested comprehensive transfer of executive competence from the Member States to the Commission is not in line with the legal basis of Article 114 Treaty on the Functioning of the European Union which allows for the harmonization of law in the European Union."

And Schäuble continues: "An excessively flexible interpretation of Article 114, transferring far-reaching powers and responsibilities to the Commission, creates serious operational risks for the future system. Article 114 aims to foster the proper functioning of the internal market, which encompasses all Member States in geographical terms. Article 114 does not aim to foster the specific objective of financial stability for just part of the EU 28, namely those Member States participating in the Single Supervisory Mechanism. And in no way does Article 114 foresee the Commission becoming the Resolution Authority for this segment of the internal market, leaving out another major part of the European financial sector. Against this, today's proposal risks to split, rather than complete the internal market."

Schäuble then lists other risks: "A second risk pertains to resolution decisions that may factually impact on national budgets." Further: "The proposed resolution funding by the banking industry leads to a third risk, again related to the rather limited scope of Article 114. It would hence expose the future SRM to major risk of litigation if funding is not ensured under clear legal circumstances."

Therefore, Schäuble is proposing a two-step approach. "In phase one, we should very rapidly approach a practicable solution and focus on a more decentralize approach." In phase two, "we should prepare for a comprehensive, more centralized solution, based on a revision of the Treaty texts. I suggest working in parallel on a revision of Article 127 paragraph 6 to make the Single Supervisory Mechanism as strong as possible and to create an equivalent legal basis for the SRM, allowing for a substantial strengthening of the institutional structure of both the European Union and the eurozone."

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down due to toxic investments and lack of a viable business model. In negotiations with the EU Commission, Steinbrück—together with Edmund Stoiber, the governor of Bavaria—was a driving force to get a five-year grandfathering of the Landesbank's state refinancing privileges which secured access to cheap funding at public sector interest rates."

Long-time bank supervisors and regulators point out that Steinbrück is one of Germany's elite politicians from the major parties who, in their drive for improving state revenues through their Landesbanks, pushed Germany's bank supervisors into more and faster deregulation, in particular when setting up branches in offshore centers.

After playing on the arsonists' team in the public banking sector, Steinbrück successfully emerged during the financial crisis of 2007–2008 as leader of the Germany's fire brigade. Bailing out Hypo Real Estate was the most spectacular and most costly rescue operation. With Jörg Asmussen as state secretary and executer on his side, Steinbrück and Chancellor Merkel presided over what insiders call Germany's "Vollkasko-Bankenrettung," or fully comprehensive bank rescue, under which all silent participants and hybrid investors as well as all subordinated creditors were fully compensated at taxpayer expense.

Journalist Quentin Peel put forward the thesis that "policy paralysis in Europe could extend far past German elections" and that "it may take pressure from the markets to trigger EU reform." This is a realistic assumption.

What is very different in Germany's response to the banking crisis from other major Western countries is this: The full-cost bank bail-out was accompanied by a "grand coalition" understanding to block all efforts toward any larger independent inquiry such as the legislators in the United States and the United Kingdom launched. Behind this bipartisan cover-up strategy—connected with the names of Merkel, Steinbrück, and Asmussen—was the realization that in Germany's case, "regulatory capture" by the political elite would have been exposed as a major cause of Germany's banking troubles by a truly independent financial inquiry commission.

Moving into election campaign mode, Merkel and Schäuble came out as defenders of EU law.

This darker background may explain why Merkel's challenger is not addressing many issues that matter to German taxpayers and savers.

Steinbrück also has a problem with his preferred coalition partner, the Green Party. Their lead candidate, Jürgen Trittin—an environmental populist who wants to become Germany's first Green finance minister—wants to issue eurobonds to solve the still-smoldering euro sovereign debt and banking crisis in one big stroke by offering Germany's triple-A rating to all eurozone debtors. It doesn't matter that this would set Germany on track to fall below France in its country rating, so it appears. Representing a segment of voters that is very sensitive to environmental and civic issues and that is secure financially thanks to public sector employment, the Greens still tend to support more European solidarity. Trittin's plans to side with the Club Med debtor countries and commit Germany to the issue of eurobonds is, of course, anathema to Merkel, who promised that there won't be eurobonds "as long as she lives."

Steinbrück and the SPD have come to reject the issue of eurobonds but consider accepting a jointly guaranteed debt redemption scheme for the eurozone

similar to the proposals presented by the German Council of Economic Experts.

WHY SCHÄUBLE'S ROLE IS CRUCIAL

What seems to work against Steinbrück and the Social Democrats is that he has not really entered the debate about the monumental changes and challenges that the 2012 EU summit decisions imply for Germany's financial sector, fiscal development, and the welfare and wealth of its eighty million citizens. Almost totally ignored is how the long-term financing of Germany's costly welfare state is threatened by the fiscal implications of the planned institutional changes. Looking at what Steinbrück has said, one finds mostly pro-European solidarity generalities, as if the largest European economy and financial system could survive without discussing how to look out for its national interests to protect its fiscal capacity.

Steinbrück is leaving the bread-and-butter debate on megaprojects such as the Single Supervisory Mechanism at the ECB, the new rules for using the ESM for direct bank recapitalization, and what position Germany should take with respect to the EU Commission proposal of a Bank Recovery and Resolution Directive solely to Schäuble, his successor, who despite his age (71) wants to stay in his present job.

This way, Merkel's top Brussels troubleshooter, with forty years of membership in the Bundestag, can be especially helpful for the conservative-liberal coalition campaign to regain lost trust and direction in a sea of economic and financial insecurity.

Take the recent *Spiegel* headline from the last Brussels EU summit: "EU Deal Protects Taxpayers in Bank Bailouts: In the future, European banks, their owners and their creditors will be held accountable should financial institutions collapse—and not just taxpayers." Isn't that exactly what unsettled savers and depressed taxpayers want to hear?

The recent Brussels and Luxembourg deals have been presented to the German public by the ruling coalition government and by a not-so-investigative press as an effective sedative. The story goes like this: Thanks to Finance Minister Schäuble's tough negotiations—at last!—the burden of paying for bank rescues will be lifted from taxpayers. A so-called "bail-in" regime can force shareholders, bondholders, and some depositors—in that order—to contribute to the costs of bank failures, while insured deposits under €100,000 will be exempt.

And after jolting Germany's banking sector by yielding to European banking union, Schäuble now is redefining the limits on how far Germany can go.

Since no major reform project on the European stage can get very far without the support of Germany as the largest economy, Schäuble—whom *Spiegel* contributor Michael Sauga recently characterized as "a minister (who) is trying to dispel his established image as a tragic icon in a wheelchair through prolonged attacks of good cheer"—is moving even more toward the center stage to save the euro.

On the day of U.S. President Barack Obama's Berlin visit, Schäuble excused himself to explain to Germany's cooperative bankers at the Berlin Marriott Hotel why a "strong central bank resolution authority needs EU treaty changes." And he drew the battle lines: "I told [EU Commissioner Michel] Barnier that Article 114 of the Treaty on the Functioning of the European Union will not do." Schäuble then spells out what might happen: Should Barnier and the EU Commission go ahead with a bank resolution proposal on that shaky legal basis, Berlin would try to block it, which might not be possible in the long run. If necessary, Germany would go to the European Court of Justice. Even if Germany were to lose—which has to be expected from the verdicts coming from the European Court—this could drag on "two horrible years." Through such a litigation Germany would, however, secure needed time. Schäuble foresees that after next year's EU elections, a new EU Commission will be formed with "other people and another agenda."

For Merkel and Schäuble, making a stand for treaty changes for the Bank Recovery and Resolution Directive proposal is what many have been waiting for.

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This comes after confidence was eroded among law-abiding citizens when the shaky legal basis for enabling the ECB as lead bank supervisor using Article 127(6) of the Treaty on the Functioning of the European Union was accepted, and after a long list of broken promises and broken laws in the euro rescue operations starting with the Greek rescue in 2010.

Organizing the German defense in the coming power struggle with Brussels puts Schäuble at the center of the controversy about reconciling Germany's national interest with the almost limitless support requests from the EU Commission and the Club Med-dominated eurozone debtor countries which are burdened by shaky banking systems waiting to be recapitalized with European rescue money.

SPD FEARS COALITION UNDER MERKEL

Looking at the big personal lead of Chancellor Angela Merkel in the polls, the firm 40 percent support for the Christian Democratic Union and its Bavarian sister party, the Christian Social Union, and with the Green Party at about 13 percent, the Social Democrats cannot be satisfied with only reaching 25 percent voter support at present. Those are where the Emnid poll results stand at the end of July.

Recalling their worst election result of the postwar era, the Social Democrats fear that come September 22, they might be forced to enter for the second time a "grand coalition" under Merkel as they did from 2005 to 2009. Another realistic alternative is a continuation of the present center-right coalition under Merkel should the pro-business Free Democrats rise over the 5 percent hurdle.

If the Social Democrats have to give up their hopes of forming the next government together with their Green partners, only one thing is for sure: Merkel's not-so-lucky challenger, Peer Steinbrück, will be free to make some further lucrative speaking fees on the conference circuit explaining how he could better solve the euro sovereign and banking crisis.

Journalist Quentin Peel put forward the thesis that "policy paralysis in Europe could extend far past German elections" and that "it may take pressure from the markets to trigger EU reform." This is a realistic assumption for several reasons. One is that with Merkel and Schäuble in the driver's seat of a new Berlin coalition government, the power struggle over the need for EU Treaty change for the Bank Recovery and Resolution Directive proposed by the EU Commission may drag on. Critical will be also the European calendar with European elections in May 2014, the formation of a new EU Commission, and the looming British elections in 2015.

When Erik Nielsen, chief global economist at UniCredit Bank in London, projects that the German elections will "spell the end of the slowdown in a number of European initiatives" and "undermine questions among some about Germany's commitment to the currency zone," he might be much too optimistic.

The treasury chief for the first time indirectly admitted openly that the German government embarked on the establishment of the controversial Single Supervisory Mechanism without a sound legal basis.

Looking at the deep unease felt by many Germans about the cost and risks of euro rescue operations and the coming banking union's burden-sharing threats, one can put big question marks behind Nielsen's further prediction that "the next German government will be as pro-European, and pro euro, if not more so, than the present one." And he continues: "The overall message to Europe and the world from the German population on September 22 will be that Germany is as committed to the eurozone as ever. It is time for the remaining euro-skeptics outside the continent to get to grips with this reality." That might be wishful thinking from the London bankers betting that German politicians and taxpayers could be forced deeper into eurozone joint liability. In that regard, Nielsen is on Steinbrück's side when he argues that "Germany already is in a eurozone joint liability union." ◆