The Price of German Leadership

Having exploited the eurozone, it's fair that Berlin and Frankfurt now pay the price.

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In the global financial crisis, Germany has presented itself as the virtuous leader while pursuing predatory policies. In both the United States and Europe, greedy, poorly supervised banks made loans to uncreditworthy consumers. U.S. banks gave mortgages to unqualified home buyers. German banks gave money to unqualified southern Europeans. The U.S. political narrative has been that evil banks preyed on innocent borrowers—because those borrowers vote. The German political narrative has been that irresponsible borrowers are ruining their virtuous banks—because the banks are German and the consumers are foreign. The problems are the same, the political spins opposite. (Both spins are successful efforts by politicians to avoid responsibility for creating the incentives that ensured crises.)

Germany had the preeminent voice in creating the euro system, which gave a huge currency advantage to Germany while disadvantaging southern Europe. For sixteen years since the founding of the euro, German exporters have enriched themselves on exports to Greece, Portugal, and others. In addition to the currency advantage, German and French banks' funding of Greece drove interest rates so low that, for instance, Greeks bought an extraordinary number of Porsches. German regulators incentivized that by classifying Greek bonds as risk-free. Eventually there is a price to be paid for profits gained in this way. Call it the price of German leadership. Call it the price of

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The most dangerous man in Europe: **Wolfgang Schäuble,** *Germany's finance minister who has emphasized the need for a crisis in order to make changes that Germany wants.*

exploitation. Either way, that price is at least as much a German responsibility as a Greek responsibility.

When the global financial crisis began, the world could be saved from depression only by massive fiscal stimulus. Because of their size and global engagement, three countries bore responsibility for saving the global economy: the United States, China, and Germany. The United States and China acted decisively and averted depression. Germany stood aside and profited as a parasite on the U.S. and particularly the Chinese stimulus.

German failure to stimulate in the common interest is of course explained by the residual trauma of Weimar inflation. But for an aspiring global leader, ancient trauma cannot excuse contemporary irresponsibility.

As Europe struggles to avoid the collapse of the southern European economies and the Franco-German banks, Germany has sought to paint its own role as virtuous and the Greek/Portuguese/Spanish/Italian role as debauched in order to justify forcing most costs of the crisis onto the southern Europeans. Greeks should, according to this logic, bear the almost the whole burden of sacrifice while the German companies and banks who profited for decades from an unfair currency structure and predatory lending should pay minimally.

It won't work. The burden on Greece and others is too great for them to bear. By worsening rather than ameliorating southern depressions, Germany ensures those countries' failure. Squeezing Greece the way the allies squeezed Germany after 1918 can only lead to the fracturing of Europe. The only possible solution is massive German stimulus, and Franco-German absorption of more of the costs of predatory lending and trade.

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Of course, it is unfair for Germans to have to work hard until age sixty-five so Greeks can slack off and retire early. But, just as it was unfair for U.S. banks to sucker Americans into homeownership with unsustainable mortgages, it was unfair for German companies and banks to sucker Greeks into unsustainable purchases and lifestyles, incentivized by German (and other) regulators who treated Greek bonds as risk-free right through the crisis stress tests when such ratings were clearly absurd. Domestic politics in Germany and France have delayed effective action until the regional crisis affected tens of millions more people than it needed to. The resulting pain must be shared.

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Beyond that, Germany is exploiting the euro crisis to impose on Europe a system that will be structured by German rules and dominated by German power. In response, old resentments are surfacing. Germany's sound domestic management certainly gives it a major qualification for regional and global leadership, but as I traveled around Europe recently, executives repeatedly referred to Wolfgang Schäuble, Germany's finance minister who has emphasized the need for a crisis in order to make changes that Germany wants, as the most dangerous man in Europe. The reaction is coming. Britain's leaders are the most undiplomatic, but Greek and Portuguese rioters and subtler, broader diplomatic resistance to treaty changes could converge.

This is the third German bid in a century to achieve dominance of Europe. The strategy this time is financial and highly civilized rather than military, but the destructive selfishness ensures a backlash unless it is replaced by stimulus and sharing of sacrifice. German political strategy may prove as self-defeating as its economic strategy. ◆