EURO CRISIS FROM GERMAN AND FRENCH PERSPECTIVES IN 2013

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Abstract
After a very short time of the “Golden Age of the Eurozone” hard times have arisen for European integration. They revealed cracks in the very foundations, and (until then) hidden thoughts and opinions of key players in the EU arena. Recent emotions and different levels of a sense of obligation to deal with current problems seem to divide instead of bring together the big DUO, the Eurozone’s traction force, and even the EU itself. It should be noted that European integration after the Second World War was a product of the combination of French and German ways of thinking. In 2013, it seems that this purpose-built duality is falling apart. The aim of this paper is to research and analyze several aspects and elements of the Franco-German polarity relationship to the Eurozone scenery. Observation and comparison leads to a number of surprising results, which are supported by the data.

Keywords: Eurozone, Crisis, Integration, Export, GDP.

Introduction
France and Germany were two of the main architects of the various treaties and accords which gradually led to the formation of the EU. Though ancient rivals, as the two ‘central powers’ in the alignments that would become the EU, the French leaders, such as Mitterand and Giscard d’Estaing, were able to treat their vis-à-vis Schmidt and Kohl as good friends. In the prosperous times that preceded the crisis of 2007, they helped form a mutual admiration society, French and German leaders and other functionaries working hand in hand with each other, the two powers conniving to ‘set the agenda’ prior to any EU summit. Yet inlaid differences, such as attitudes towards work and promoting private enterprise, between the two countries would tend to take on added emphasis when the EU fell into hard times. How have these two fared since? The problem of the assessment of the complex relationship of France and Germany (1) can be framed and developed with the employment of the appropriate methodology focusing on the identification, description and analysis (2). The presented data and problem solving suggestions (3) deserved an interdisciplinary discussion (4) which should result in a conclusion wrapping the presented thoughts and putting them into a general setting.

1 Statement of a problem – assessing the relationship of France and Germany
With the 20th century having been devastated by two World Wars, the Cold War, the Depression, Fascism, Communism, and persecution of the Intelligentsia and Jews and Christians, leaders of exhausted ‘Middle Europe’ understandably felt that a spirit of cooperation, working together, could prevent future conflicts, “The Golden rule in action”. Thusly, for over 50 years now, leaders in Germany, France, Italy and other countries have been proud of their peaceful growth and co-existence, following America’s jump-starting the re-building process through the Marshall Plan.

As economies continued to flourish, the European Monetary Union was introduced by the Maastricht Treaty 1991/1992, one of the pre-conditions set by France for West Germany's unification with East Germany. The ‘Euro’ currency was introduced in 1999, taking physical form in 2002. Besides being a symbol of political unity, it was predicted that the common
currency would increase cross-border competition, lower import-export costs, and lead to price stability, among other benefits. In addition, it was felt that the common currency would help stimulate progressive convergence between member states.

While many of the micro and macroeconomic goals were attained, it soon became obvious that real convergence had not occurred in all member states, and that even the majority of member states were blatantly violating the EU stability and growth pact, which was insisted upon by German finance minister Theo Waigel. Though popular perception would place Italy, Spain and Greece as the guiltiest culprits, France and Germany were also among those caught violating their own rules. How have the two allies responded?

2 Methods

The bundle of European integration issues around the single-common currency and its area and era, the Eurozone and Euro crisis, needs to be approached and addressed with appropriate scientific methods. These predominantly investigating techniques must be deployed in an open-minded form, as this strongly interdisciplinary topic and stated problem cannot rely just on conventional ways of acquiring and processing information. There is an abundance of data and evidence, but it is not always empirically measurable and sufficiently objective. As a matter of fact, the key point in the study of the Eurozone (object) is the standpoint of the examiner (subject), thus inevitably the two strongest players - France and Germany - present a different, often hard to reconcile, analysis. In other words, there seem to be two leading sets of hypothesis, analysis and conclusions – the Hollandism vs. Merkelavianism.

The ultimate methodological selection for the stated problem led to the employment of scientific procedures of identification and description while using an abundance of resources, including strictly academic papers as well as press releases and newspaper articles, along with the observation of the general economic setting and available economic data. The analysis is predominantly functional and comparative with analogy elements. Both inductions and deductions are used as appropriate.

3 Data and problem solving

The political and economic European integration was set in motion following the Schuman Declaration based on three treaties in the 1950s, the Treaty of Paris establishing the European Coal and Steel Community (ECSC) and by the Treaties of Rome establishing the European Economic Community with a common market (EEC) and the European Atomic Energy Community (Euratom). The European Court of Justice (ECJ) was among the institutions formed and recognized by all of them for all three communities. The ECJ was able to change the Treaty of Rome establishing the EEC into a constitution and laid down the legal foundations for European integration, especially in the economics field. A driving factor for European integration was to strengthen the economic cooperation between Germany and France so as to prevent future conflicts in Europe [16].

There followed a number of other treaties, including the Treaty of Maastricht establishing the EU with a single market or internal market as well the expansion of the membership to 15. Things seemed to be going well, with positive prospects for European integration. Yet the future was not sanguine, but for various reasons many inside, as well as outside, players decided to overlook danger signs, or at least did their best to minimize them. Therefore, instead of an in-depth and careful implementation of ongoing legitimization of the supranational approach and legitimate monitoring of the true willingness and preferences of the European citizenry, an overly positive picture was painted, drowning out any dissent. The five decades of European integration were thus described as glorious and successful, the EU
praised as vitally contributing to prosperity, democracy and security in Europe and its enlargement policy as a wonderful instrument of foreign policy. Inevitably, it was decided that such a splendid achievement should be delineated in a solemn constitutional format, making it more defined, official, and illustrious (and also reflecting on the glorious leaders). Thus, the preparation of the Constitutional Treaty started enthusiastically but then became an aborted attempt to be substituted by the reform treaty of Lisbon significantly changing the Maastricht Treaty on EU (TEU) and the Rome Treaty on EEC, becoming the Treaty on the Functioning of EU (TFEU) [16].

The Economic and Monetary Union (the EMU) was dreamed up during 1988-1989 by a group of central bankers, presaging the Maastricht Treaty of 1991. Bankers would come to have an increasingly influential role in the future, as the European Central Bank (ECB) would be made up of 11 central banks charged with monetary policy. For those countries wishing to join the EMU, ‘Convergence criteria’, budgetary and monetary strictures, were established. The criteria rules applied to exchange rates, national debt, inflation, interest rates, size of budget deficits, with the UK and Denmark (officially) and Sweden (de facto) opting out.

A unified currency for Europe, less than 60 years after the Second World War, was highly significant, and also a sign of further integration among the member nations. The aim of growing cross-border trade, increasing efficiency in financial as well as goods and services markets and reducing transportation costs and costs of doing business seemed well within reach. Another goal of the Euro was achieving price stability. However, it should have been clear to all that the ‘great equalizer’ of a common currency would lead to the more efficient and competitive manufacturing countries making inroads into those countries less well-organised. The business reality put these ideas, goals and expectations under the ‘acid test’, and the unfortunate outcome pushed the big EU duo into continued stress. These two close allies have presented divergent fortunes, with differing solutions ... and this has historic roots.

Two of the main proponents of the Euro, Jacques Delors, the French Head of the (in)famous EMU and EU creating Commission, and Helmut Kohl, German Chancellor during this Commission time, admitted, after the fact, that they each had a very weak background in economics, and it (eventually) showed. Interestingly enough, it was the same Jacques Delors, who two decades later bitterly stated that the Euro was flawed from the very beginning and, in referring to its creators, said “and now everyone must examine their conscience” [17]. Thus, according to the former architect of the single currency, the Euro was doomed from the start [12]. His suggestion about examining one’s conscience has perhaps already been undertaken by himself [19].

The idea of a monetary union with no real fiscal union has proven to be harrowing. It was not put to a democratic vote of those who would be most impacted, namely EU citizens. As Economist Roger Bootle wrote, the Euro “...wasn’t willed by the people but was rather thrust upon them by their leaders, without sufficient thought or preparation. They have created a monster which threatens to destroy the European economy – and with it, to threaten the world” [4].

However, in the short term, the Euro Zone’s goal of price stability, while targeting inflation, quickly gained acceptance in financial and foreign exchange markets, bond markets rapidly became integrated, leading to a tightening together of government bond yields, the various countries’ rates tending downwards towards well-regarded Germany’s levels. The decrease of the deviation of the convergence of interest rates in the last decade is shown in the graph in Fig. 1.
Apparent stability diminished currency risk, and financial institutions found it increasingly easy to borrow abroad. This led, in turn, to increased lending to the construction industry and housing sector, property values (temporarily) rose and debt increased. As the global financial crisis set in during 2007, however, bad bank debts and large governmental debts were exposed.

“Rules are made to be broken”, said General Douglas MacArthur. Although the Euro convergence criteria set by the Maastricht Treaty, i.e. the requirements to enter the third state of the EMU, include clearly the debt criterion of 60% and the deficit criterion of 3%, both France and Germany failed to meet them and thus do not satisfy Art.140 of the TFEU and the Stability and Growth Pact (SGP). As a matter of fact, both countries violated them soon after the signature of the SGP in 1997 and the same goes for almost all the other members of the Eurozone. These violations were constantly repeated and never resulted in any punishment, which only encouraged further transgressions [11]. “France has regularly broken the EU and Eurozone’s ‘golden rule’ that budget deficits should not exceed 3pc of GDP annually, (with) a nonchalance that many believe helped sow the seeds of the current debt crisis” [20].

The real convergence does not occur in all member states. The regression modes, explanatory variable and dummy variables are statistically significant and for the period of 1995-2010 suggest that one of the slowest converging countries is Germany [13]. In this respect, the awareness about basic macroeconomic data about France and Germany is critical and thus is recapitulated in the following tables, i.e. in Tab. 1 for France and in Tab. 2 for Germany.

**Tab. 1: Overview of France GDP, government deficit/surplus and debt in the EU**

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP in million Euro</th>
<th>Government deficit</th>
<th>Ratio of annual deficit over GDP</th>
<th>Accumulated government debt in million Euro</th>
<th>Ratio of accumulated debt over GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>1 885 763</td>
<td>-142 223</td>
<td>-7.5%</td>
<td>1 493 385</td>
<td>79.2%</td>
</tr>
<tr>
<td>2010</td>
<td>1 936 720</td>
<td>-136 779</td>
<td>-7.1%</td>
<td>1 594 977</td>
<td>82.4%</td>
</tr>
<tr>
<td>2011</td>
<td>2 001 398</td>
<td>-105 392</td>
<td>-5.3%</td>
<td>1 716 887</td>
<td>89.8%</td>
</tr>
<tr>
<td>2012</td>
<td>2 033 648</td>
<td>-98 196</td>
<td>-4.8%</td>
<td>1 833 810</td>
<td>90.2%</td>
</tr>
</tbody>
</table>

**Source:** [2]
Tab. 2: Overview of Germany GDP, government deficit/surplus and debt in the EU

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP in million Euro</td>
<td>2 374 500</td>
<td>2 496 200</td>
<td>2 592 600</td>
<td>2 643 900</td>
</tr>
<tr>
<td>Government deficit</td>
<td>- 73 180</td>
<td>- 103 440</td>
<td>- 20 230</td>
<td>+ 4 090</td>
</tr>
<tr>
<td>Ratio of annual deficit over GDP</td>
<td>- 3.1%</td>
<td>- 4.1%</td>
<td>- 0.8%</td>
<td>+ 0.2%</td>
</tr>
<tr>
<td>Accumulated government debt in million Euro</td>
<td>1 768 919</td>
<td>2 056 089</td>
<td>2 085 181</td>
<td>2 166 278</td>
</tr>
<tr>
<td>Ratio of accumulated debt over GDP</td>
<td>74.5%</td>
<td>82.4%</td>
<td>80.4%</td>
<td>81.9%</td>
</tr>
</tbody>
</table>

Source: [2]

4 Discussion

Into this maelstrom, bolstered with Socialist fervour, with promises of increased social spending, avoiding austerity programs imposed by other EU nations and creating more jobs – at least in the public sector – came the self-proclaimed ‘normal president’, Francois Hollande. From the start of his taking power, the auguries were not propitious, as Hollande was drenched by a sudden rain squall at his inauguration, and later that day his jet was struck by lightning as he was making his way to Germany to meet with Angela Merkel. When he finally arrived at the Berlin airport, again in a downpour, he got lost on the airfield's red carpet reviewing the German troops, and had to be guided firmly by Mrs. Merkel's gripping his elbow, a sign of things to come.

Inasmuch as the leaders of Germany and France had, for many decades, together mapped out what the agenda would be prior to any EU summit, Merkel and Hollande were fated to work together...but that didn't mean that they had to like it, or respect each other. Before the French election, it was obvious that most EU leaders, Merkel included, hoped for the re-election of Hollande’s predecessor, Nicholas Sarkozy, which did not bode well for Hollande’s future relations with Merkel.

Early on, Mr. Hollande began distancing himself from austerity measures. Prior to the EU summit in October of 2012, Hollande attempted to ambush Mrs. Merkel by forming a ‘Mediterranean Front’ of France, Spain, Italy and Portugal to break Germany’s hold on policy. His efforts failed ignominiously, Germany was annoyed, and Merkel began strengthening ties to the UK's David Cameron. Hollande and Merkel fought over supervision of national budgets, and according to a reporter present. “Such an open clash between the French and German leaders is rare at EU summits, a sign that Europe's landscape has changed radically since Mr. Hollande took power.” [8].

Breaking trust with the Germans was one of the least of Hollande’s problems, however, as his unpopular raising of the top level of personal income taxes began to drive wealth and the wealthy (not just Gerard Depardieu) from France, lessening the number of entrepreneurs and thus losing job creation opportunities. When Article 6 of his new tax law raised the top rate of capital gains tax from 34.5% to 62.2% (in Britain it is 28%) it set off a firestorm of protest from businessmen, already staggering under restrictive labour laws. Article 6 was labeled ‘economic illiteracy’ and a disastrous economic mistake. In September, his budget called for higher taxes, but no slimming of the gargantuan state spending, with no plans to increase exports or encourage business, or offset France’s long term loss of global competitiveness. At this point, Germany's finance minister, Wolfgang Schauble, tasked a (German) panel of top advisers to examine possible reform proposals for France. In November, France was stripped of its coveted AAA status by financial ratings agencies, unemployment hit a 13-year high, while its insistence of maintaining high French agricultural subsidies helped lead to the failure of the EU to reach an accord on EU spending for 2014-2020. Hollande has only nibbled at the
edges of the deficit, cutting 10 Billion Euros in spending and raising taxes (mostly on the rich) by 20 billion, the result insignificant for a 2 Trillion Euro budget.

When former President George W. Bush famously joked that one of France’s problems is that there is no French word meaning ‘entrepreneur’, he hit the nail on the head. Although Hollande has spoken about stimulus spending, he has not undertaken much needed reforms of the restrictive business environment, mainly labour law.

“The French labour code has 3,650 pages and 200 pages are added every year. The Swiss labour code has 70 pages and I do not think Switzerland is a less efficient economy or labour market” says Henri de Castries, CEO of Axa, a French Insurance company which is one of the largest in the world [6].

In France, when a company grows in size such that it needs more than 50 employees, 34 additional labour laws and restrictions take effect, discouraging businesses from expanding. This helps explain why there are in France barely 4,000 SMEs – Small and medium enterprises – proportionately only half of the total that exists in either Germany or Great Britain [1]. Also, a multitude of many illogical rules and directives create havoc for any potential for growth, this during a terrible slump. Forced on business and private individuals with bureaucratic fervour, “They cost the 27 European Union countries an average of 3.7 percent of their gross domestic product a year, more than $10 billion in the case of France, and hold back an incalculable amount of new investment” [7]. De Castries of Axa pointed out that with French public spending at 56 per cent of GDP it is 10 percentage points more than the average of the other Eurozone countries, the difference being 200 billion Euros, one tenth of France’s 2 trillion Euro economy. “This 200 billion Euros is taken out each year from the people who know how to make money, create jobs and foster growth to subsidize benefits and public projects that do not necessarily have any significant rate of return, so it is no surprise that the competitiveness is not optimal” [6].

New rules for wheelchair access and fire protection threatens to shut down 80% of small independently run hotels, most of them in centuries-old buildings which are unable to enlarge hallways or stairs. A bureaucracy, when it becomes sick or dysfunctional, is termed a bureaupathy, and the French version has a flavour all its own. In addition, the current global post-modern society is founded on communications and current successful EU projects, such as TLD.eu or other projects in the sphere of intellectual property, are conceptually based on the technical harmonization and strong delegation to Private law subjects [14]. These well proven correct concepts should become an inspiration for the EU [15] and should preoccupy the minds of EU leaders and actors much more than the drive to increase the number of pages of various codes and regulations or the eagerness to have super modern wide elevators in medieval buildings.

In 2013, Hollande’s bad luck continued, with the Cahuzac scandal, wherein the budget minister, in charge of fighting tax fraud was found to have been a tax fraudster himself, holding a secret Swiss bank account, and is faced with jail. In addition, the minister for industrial recovery, Arnaud Montebourg, once again proved his unfitness for the job by chasing away a 300 million dollar investment from Yahoo, this coming just after preventing Titan International from trying to buy a failing Goodyear French tire plant, to go along with similar failures. A highly unpopular forcing through of Gay Marriage has led to the largest street protests in 30 years, reflective as well of Hollande’s unpopularity. In a mock election, it is estimated now that he would garner but 19% of the vote, with rightist Marine Le Pen ahead with 23% and former President Sarkozy netting 34% [18]. Perhaps to take the heat off Hollande from the French citizenry, in April of this year several of Hollande’s ministers began to make insulting remarks about Germany, austerity, and Mrs. Merkel, without being
held accountable for their remarks by Hollande. The German response was to leak a memo by some of Mrs. Merkel's coalition partners which labeled France as “Europe’s biggest problem child” with a sick economy and a reform package that was, at best, aimless. Mrs. Merkel then denied that she knew of the report or agreed with it. As Mrs. Merkel might say, “Touche!”

Why does Germany fight so hard to keep the Euro, which has cost so many people in Greece, Spain, Portugal and other countries their jobs and futures? Because it is in their own best interest. The German “business and political elites know that the Eurozone provides German exporters with a large market of rather uncompetitive countries that buy their goods...Merkel must explain (to German voters) that Germany is paying into the bail-out funds not for idealism but out of self-interest” [10]. Germany has been restraining it’s domestic consumption, in the face of calls from the other EU zone members to increase it, while it has become an export-driven nation. In November, 2012, the US Treasury department released a damning criticism of the re-occuring trade surplus of Germany, branding it as a greater enemy in this regard than China. Germany’s current account surplus at that point was at 6.3% of GDP, while China (for various reasons) was down to 2.6%, making Germany the biggest single source of trade imbalance in the world. The report said that the EMU regime of Southern austerity was not being met by offsetting stimulus in the North countries, thus holding back global recovery [9]. But as former GM Chairman ‘Engine Charlie’ Wilson famously declared “What’s good for General Motors is good for the USA”, and what’s good for Germany is......good for Germany. In re to GM, GM Europe’s Opel-Vauxhall has reported losses of $1.8 billion in 2012, Ford Europe lost $1.75 billion, and Peugeot-Citroen of France lost $2 billion. And Volkswagen? Volkswagen had profits of $15 billion [21].

Meanwhile, in France, as of May, 2013, public spending is now at 57% of GDP, while the country’s public debt is nearly 94%, and unemployment has increased 11.5% in the one year since Francois Hollande took office. The European Commission, which has been granted new EU powers to enforce needed reforms in member countries, has demanded France make radical reforms to its bloated pensions and employment laws so as to try to increase France’s waning competitiveness. This demand went hand-in-hand with the Commission’s granting France two extra years to reach its budget’s deficit targets. “Our message to France is putting a great accent on structural reforms that are needed” said Jose Manuel Barroso, head of the European Commission, the EU’s executive body. “Cutting public spending, restoring competitiveness, opening up restricted markets, reforming the tax regime and loosening tight labour market regulations” continued Barroso. This announcement came on the same day that the OECD, club of large economies based in Paris called for almost exactly the same changes for France [5].

The IMF issued the same calls for reforms from France within the same week. Hollande's response was not one of gratitude, however, for the two years extension, rather one of denying that the EU could ‘dictate’ to France, and implying that France might ‘hunt and peck’ reform, and at its own (slow) pace. However, inasmuch as Europe’s Commissioner for economic and monetary affairs, Ollie Rehn has implied that he will use new EU powers, such as fines and other penalties, to force France to make needed reforms, it may just be more empty verbiage from Hollande. Meanwhile, a French documentary film about Hollande, entitled Le Pouvoir (The Power) has portrayed him as a timid, ineffectual, hen-pecked weakling, afraid to make decisions, and losing the respect of those working under him. Hollande’s recent announcement that the Eurocrisis was over will doubtless be given all the respect due its source.

Hollande’s approval ratings are the lowest in France’s history, though perhaps after Waterloo Napoleon’s might have been worse, had they measured such things in those days.
Conclusion
The dynamics of the French-German partnership, so important to leading the EU, has broken down, reflecting the fortunes of the Euro itself. Was the alliance built on a foundation of sand, just as the Euro seems to have been? The amateurish attempts of Hollande to show up Angela Merkel simply damaged his credibility on the world stage. France’s refusal to reform its economy is considered as potentially the biggest threat to the continuance of the Euro, so it may prove out that Euro skeptics will be toasting Hollande in the future. Yet with correct leadership, facing reality and getting France’s own house in order, the results could be drastically different, though still with perhaps a recognition from EU leadership that the euro experiment has caused far more damage than it is worth.

Literature


E U R O - K R I Z E Z NĚMECKÉ A FRANCOUZSKÉ PERSPEKTIVY V ROCE 2013

Po velmi krátké době zlatého věku Eurozóny nastaly pro evropskou integraci těžké časy, které odhalily praskliny v samotných základech a (až do té doby) skryté myšlenky a názory klíčových hráčů na EU scéně. Nedávné emoce a různé úrovni pocitu závazku se vypořádat se současnými problémy spíše rozdělují než sbližují velké duo, tažné síly Eurozóny, a dokonce i samotné EU.

Je třeba poznamenat, že evropská integrace po druhé světové válce je produktem spojení francouzského a německého myšlení. V roce 2013 se zdá, že tato účelová dualita se rozpadá. Smyslem tohoto příspěvku je výzkum a analýzu několik aspektů a prvků francouzsko-německého polaristického vztahu scenérie Eurozóny. Pozorování a komparatistika vedou k řadě překvapující výsledků, které jsou podloženy daty.