

Berlin's shortsighted defense

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The stubbornness with which Berlin rejects the call to look beyond the end of its nose for the solution of the euro area crisis is astonishing and at the time not surprising. The German Government's behavior is the same as the one it held twenty years ago with German unification: conserving a status quo that only time proves that it cannot be defended.

The way with which German unification took place in the 90s aimed at safeguarding the social and political equilibrium of Western Germany. The opposite result was achieved with the disintegration of Modell Deutschland, forcing it to change drastically as it was no longer sustainable. Chancellor Kohl imposed an unrealistic exchange rate between the two Germanys in a bid to avert "demographic contagion" or migration towards the West of the DDR population.

With the joint agreement of unions and Western businesses, demanding Western labor contracts were applied to the new regions in order to prevent the creation of low wage enclaves in the East capable of exercising competitive pressure on businesses and employment.

Based on Western political needs, the two primary elements of cost – the exchange rate and labor costs – caused the immediate decline in economic activity and exceptionally high unemployment rates in the new Länder. The burden was so high that it weighed on the entire Country, increasing unemployment and stagnation also in Western Germany. The Bundesbank's mistaken monetary tightening closed the loop exporting the crisis to all of Europe and causing the break-up of the European monetary system.

Twenty years later, maintaining a German imaginary status quo is producing the same mistakes. For a long time, Germany convinced itself of being a stranger to the crisis – on the contrary it acquired the status of a safe haven that benefits from negative interest rates and an exchange rate that is eased by the weaknesses of its partners – and even now does not understand it, thinking it derives from a problem of public accounts. But the fundamental reaction is still that of maintaining the status quo, containing from within its Country the effects of the crisis. For example, European partners have to become fiscally sterile whatever the consequences of this on their economies. Just like the New Länder in the 1990s.

Just like with unification and just like the first bailout of Greece the result will probably once again be the contrary of the one that was: the crisis will end up worsening and costing ever more. Again we will see if the wrong German conception of monetary stability will knock down European integration just like the Bundesbank managed to do in 1993.

This confusion -- tragic in terms of political philosophy—between integration and identity is part of this mental cage. Integrating Europe does not mean making each Country become like Germany. An economic area lives off areas, States or regions, which are different from one another and that inevitably have different productivity rates, development rates and also unbalanced balance of

payments, just like Mississippi and Massachusetts. Also German unification was not an integration but an identity. However, what was difficult among two Germanys is impossible for 17 Countries.