The German Effect Over the Growth and Power of the European Union.

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Abstract

With the rise of the European Union in the late 20th century, it has shown that regional cooperation is entirely possible on a large scale. By looking at the history of this institution, it will be possible to replicate it in other areas of the world to help breed more cooperation. Problems with this model have been numerous, but it has survived. With the possible exit of Greece from the European Union, it has threatened to unravel all of the work put into the European Union to this point. One member has risen to the challenge to hold it all together. Through Germany’s leadership and wealth, it has brought the European Union back from the brink and on track to success.

Introduction

There is a direct correlation between the sudden and dramatic rise of the unified German state with the economic boom and political power of the European Union. The idea is often debated by member states of the European Union that Germany is the center of the European Union’s policy making and bank because of the power of Germany itself. This can be seen by how much Germany paid (figuratively and literally) to keep the European Union together through bailouts comprised of mostly Germany funds, or the amount of time Merkel and her cabinet have spent stabilizing the European Union. Many economists, political thinkers, and European Union speculators will agree that Germany played a large part in the successful formation and maintenance of the European Union, but it continues to thrive in part to the help of other nations within the European Union, along with other factors such as global currency trends and outside influencers, such as the United States. This shouldn’t raise concerns over a new economic superpower in the world to rival the United States, but
rather an opportunity for the United States to trade on equal terms with a power close to, if not equal to its own. This will in turn provide more trade for the United States and the European Union, leading to the creation of jobs in all sectors.

The purpose of this paper is to first analyze the structure of Germany’s and the European Union’s economic prominence, how it ranks globally, and its influence of markets. Next, the paper will examine the involvement of Germany in the European Union’s affairs compared to a combination of the other European Union members. Finally the possible long term effects that not only Germany has upon the European Union, but how through that, the European Union will affect the global atmosphere.

There are multiple ways to gather the necessary data in order to compile enough sources to effectively write a paper of this magnitude. In order to write this paper, the main sources used that were incorporated into this paper were journal article by experts in the field of history, economics, and even former/present Prime Ministers and Presidents. The paper is being broken into three sections that each uses specific set of sources to better show how the sections are relevant to the union between Germany and the European Union. The first section will compile a list of sources that include historians and early models for the European Union, along with the lead up of Germany post World War II until the start of the European Union. By doing this, it will show the evolution of not only Germany, but also the European Union. The second section will use sources primarily consisting of former and present leaders of the countries involved in the European Union along with economic experts who will explain the current system and how it works. This section will explain how the current set up of the institution of the European Union is affecting the global world, along with Germany. The final section will have sources that use a more speculative approach and various experts who look forward into the future to what they believe will become of the European Union and Germany’s interaction with it.
To analyze the current situation of Germany today, we look at Germany’s growth as an economic hub within Europe after the fall of the Soviet regime in East Germany. This then affords the opportunity to look at the current situation between Germany and the European Union, and also the ability to predict the future of the European Union’s economic impact globally in terms of market dominance and purchasing power. In addition to the formation of current German state, it is also imperative to look at how the European Union was formed and past economic policies that have been adapted. Second, the current state of Germany and the European Union will be analyzed to place how the two economies are interrelated and depend off one another to maintain functioning at the levels of economic dominance that has been seen in the previous years. This interrelationship includes various organizations and entities within the European Union, the Eurozone, and also the unilateral bailout of Greece by Germany. Finally, an analytical view of possible future scenarios will be conducted to view how various changes, positive or negative, will affect the state of both Germany’s and the European Union’s economies and provide solutions to worst case scenarios on how to avert a disastrous meltdown of economies within Europe. It is with these ideas and facts in mind that it will become apparent how not only Germany, but the European Union, will flourish in the upcoming years.

The future of the European Union is at stake, or so some people such as Mario Draghi and Jose Barraso argue. As the European Union enters recession-like conditions, which are growing increasingly worse as time goes on, academics and scholars are increasingly predicting the fall of the European Union and the Eurozone. The members of the European Union, specifically those members in the Eurozone (the nations that use the Euro as a primary currency) have been hardest hit by this global recession and the suffering continues. As Barraso and Draghi argue though, it will be up to every member of the European Union to pull this regional entity, along with each member’s own nation, out of recession.
As of now, it is mainly Germany, with the help of Turkey, who have been struggling to keep the European Union afloat. It is argued by these authors that if this continues on, then the European Union will be threatened by the “fiscally authoritarian dictates of its strongest state, Germany” (Draghi, Barraso 2013). The authors fear that the European Union will cease to be a collective of individual states run on a consensus and turn more into an imperial empire with Germany at the helm. In the event that this happens, which most scholars including Draghi and Barraso believe unlikely due to the composure of the European Union, the structure of its financial and political system, in addition to the numerous other wealthy and powerful states in it besides Germany, it will undermine the entire foundation and idea of having a regional cooperative entity.

In contrast to Draghi and Barraso, the numbers just do not add up, literally. As of December 12, 2012, the German Central Bank, known as the Bundesbank, had cut its forecast of the growth of the German economy. In the report released by the bank, it stated that it has “decreased its economic growth forecast for the country and warned of a potential recession as a result of the European sovereign debt crisis” (Blackstone, Fairless, Carney; 2012). Although this impacts the Central European Bank directly, it will also impact the role that Germany has with the European Union in the future. If this downward spiral continues and Germany does enters a recession, the European Union may not be looking towards Germany as its primary economic backer. There are other strong economies in the European Union such as France and Great Britain. Even if the European Union does falter, more specifically Germany, and with the other members who might be able to hold the mantle as the top spot in the European Union, it is unlikely that this entity, the European Union, would dissolve. Europe would just turn into a different landscape, with a new member in the top position.

Others have made the same prediction about Germany and the European Union as Blackstone, Fairless, and Carney. They ask “it is
possible that we could see a European Union without a Germany at the forefront?” (Tooze 2012). If Germany continues the way that it is, a European Union without Germany at the forefront may be more plausible now than in recent history. Along with Germany’s slowing economy, there are multiple other factors which could affect Germany later on. Such factors include an aging and diminishing workforce, aging infrastructure and crumbling energy sector (Tooze 2012). In the article, appropriately named *Germany’s Unsustainable Growth*, Adam Tooze hypothesizes that Germany is on its way down the economic spectrum unless drastic changes are to be made. He argues that Germany is still caught up in the joy of its economic surplus that has been in place since 2000, that it “has so far squandered the opportunity to secure long-term economic growth by addressing these challenges through badly needed domestic investments” (Tooze 2012). The challenges being what were listed earlier. Without finding solutions for those problems, Germany is threatening to bring, not only itself down, but the European Union as well in Tooze’s mind.

One thing will always affect the European Union, as well as every state globally: elections. The future of the European Union could greatly be decided by this year’s elections that are being held, particularly in Italy and Germany. In Germany, for instance, the election between Angela Merkel and her likely opponent in the rival party of the Social Democrats could drastically change how Germany is involved in the European Union. This may not seem like large issues to some people, but others in the banking sector, or more importantly the investment sector, will be watching closely. Just like in the Unites States when the President is elected, reelected, or speaks; the markets listen and react. The likelihood that markets will drastically react to a change in power in Germany is unlikely but it only takes a little at a time to change the course of development. For example, if Merkel were to be reelected as Chancellor of Germany, it could possibly show a sign of continuity and a continuation of existing laws. If this were to happen, the investors in Germany and
abroad might be more relaxed and continue to invest at current rates. If on the other hand, say a communist were to be elected, investors might be swayed away from investing in programs in Germany and the European Union and both Germany’s and the European Union’s economy would suffer immensely. Both of these election outcomes would affect Germany. One would lead Germany down the same path that it is currently on, with Germany at the top of the European Union, and the other would have Germany fall from the top, and along with it the European Union would fall as well.

The current choices that Germany and the European Union make will decide the longevity of the European Union. Possibly the greatest test of German power and the European Union currently is Greece. Greece is in the middle of a deep depression and debates have begun regarding leaving the European Union. As reported by the United Kingdom’s the Mail Online, corporations were bracing themselves for the fallout of a possible European Union and Eurozone without Greece. Citigroup’s Michael Saunders said “Greece’s new currency would fall in value immediately by 60 per cent - and unleash a massive, yet manageable, wave of contagion across Europe” (Reporter 2012). In a note to clients, he stated “the likelihood of Greece leaving the Euro in the next 12 to 24 months was now between 50 to 75 per cent - and assumed there would be a ‘Grexit’ at the start of next year” (Reporter 2012). By the term ‘Grexit,’ it is simply an acronym for the “Greek Euro Area exit.” If the European Union is to remain as powerful as it is, Greece cannot leave because as a founding member of the Eurozone, it would prove to some that the European Union is weakening and might lead to less investment into the European Union as a whole. Already there are members and also large corporations that are preparing for their exit by bracing themselves. Unfortunately this could also have dire consequences, such as a loss of investment into Greece specifically, which Greece badly needs. Fortunately, there have already been steps taken to ensure this will not
happen. One of the more popular steps has been headed by Germany. As Matthew Kaminski explains, “the role of Germany in providing economic assistance to countries such as Greece…in order to provide debt-relief and argues that the country, headed by Chancellor Angela Merkel, is preventing the continent from economic collapse” (Kaminski 2012).

A flock of birds is only as strong as the weakest bird. In this case, the European Union is only as strong as its weakest states, with one being Greece. By having Germany assist Greece economically it is providing not only a lifejacket for Greece, but the European Union as whole. The thinking behind this is that if Greece leaves the European Union, it will show that the European Union cannot protect its own member states from pitfalls, which would defeat the purpose of one of the main functions. This would then eventually lead to more states leaving and eventually turning into nothing more than a currency and trade alliance, similar to the North American Free Trade Agreement (NAFTA) but with an uniform currency.

In addition to Germany and the European Union states, there are others who see Greece’s leaving of the European Union disastrous. The United States also views this to be highly negative and potentially disastrous. That is why people are calling on the United States to help in some sense; from large multinational corporations, to former and current leaders of nations. One of the more profound voices of this argument is George Papandreou, the former Prime Minister of Greece. He believes that “Time and again, my country has pledged fealty to the prevailing European doctrine of harsh austerity, but for the world bond markets, it seems, we can never cut deeply enough. The reason is a crisis of confidence: Prevailing uncertainty over whether Greece will remain in the Eurozone has crippled our economy, eliminating the prospect of any business activity until the problem is solved—thus almost guaranteeing that it never is. Europe has to say, “The crisis ends here. Greece is part of the euro-zone, full stop” (Papandreou 2013). He goes on to state that Europe cannot go in this alone. The United States must help bring Greece,
along with the European Union, from the edge of the abyss. If two of the
greatest economies in the world, the United States and Germany, cannot
bring Greece back to stability, then the European Union is destined to fail.

It also is important to realize that Germany is not alone in the
task of maintain and keeping the European Union together. Perhaps the
second most power voice and state in the European Union was/is Francois
Hollande and France. Under Hollande and Merkel’s leadership, France
and Germany forged a bond for the betterment of not only the European
Union but Europe as a whole. Together, they forged the framework for the
future of the European Union, bailout terms for Greece and other states,
and future integration of states into the Eurozone/European Union. With
the loss of Hollande in the last French election, it is now clear that Merkel
has the upper hand and say in negotiations in how the European Union
will move forward. This loss only strengthens the German position. With
a leader who is still familiar with the formalities and workings of the
European Union, along with one of the original workers of the current
economic system, Merkel can exert Germany’s full potential in the
European Union unhindered.

It is always difficult to predict the future, just ask meteorologists.
They are asked to guesstimate weather conditions and temperatures in
advance and are rarely one hundred percent correct. Some believe that
political makeups and economic changes are relatively easy from month to
month but how about year to year? That’s a whole different story. Politics
tend to shift from year to year depending on what becomes an issue.
Economies are similar in the regard that they can shift from year to year,
but the reasons are much different. In the European Union-Germany case,
both can change simply because of elections, droughts, war, or a plethora
of other factors.

In Germany, to start, elections for Chancellor gearing up for this
fall. If Merkel, who is a strong proponent of the European Union and
Eurozone, is reelected, this could lead to a consistent voice from Germany within the European Union for the years to come. This will result in similar agendas in both Germany and the European Union. Such agendas would include: the possibility of more bailouts to states that are failing or have failed. We could soon see Germany providing funds and support to Italy, Spain or Portugal as they go through their worsening depressions. If that were to happen, it is also quite possible that anti-Germany sentiments would spread to those states as it has been present in Greece. There’s no knowing what would happen if that were to happen, but an assumption of the current political atmosphere would be that it would not deter Germany from doing all it can, as it continues to do with Greece and the European Union.

Another possible outcome, after Merkel’s Christian Democratic Union (CDU) party lost key election is some of Germany’s providences, is that she will be ousted as Chancellor and a new Chancellor would be elected. If this were to happen, it is completely possible to see Germany withdraw itself from the front of the European Union negotiations and take a back seat. Some of the other German parties, namely the Social Democrats (SPD), could be prized to take, if not full control of the Bundestag (the German Parliamentary body), at least half of it by forming a grand coalition with the Christian Democrats. In this event, it could go either way for Merkel and the European Union because this would lead to a power sharing government. If the CDU holds a majority, even with a coalition government, and Merkel is reelected, then the European Union will see a continuation of German participation.

If the Social Democrats, who are a left leaning party, as opposed to the right leaning Christian Democrats, take majority control of the Bundestag, Merkel would be ousted as Chancellor and the leader of the Social Democrats would take over. This would lead to a drastic change in European Union policy. Currently, Merkel and her government are in favor of the current approach of drastic spending cuts and higher taxes for states
being bailed out of receiving aid. In contrast, the Social Democrats believe there is another way of helping. “There have been hints from SPD leaders— including the candidate Peer Steinbruck— that, if elected, his government would abandon the more destructive aspects of Berlin’s present economic strategy for the Euro-area. He rightly suggests that there must be a more balanced fiscal policy with the stronger EU economies to stimulate demand and offset the depressing impact of public spending cuts and tax rises imposed on the so-called Euro-area “peripherals” – from Cyprus to Ireland” (Palmer 2013). This would mean that the leader of the Social Democrats, Steinbruck, would seek more friendly cooperation and less drastic within Europe and the European Union, as opposed to spending cuts across the board. They would seek to keep those to a minimal, while building more cooperation.

Both ideas have merit. It’s just a matter of time to see how each one works. Merkel’s approach has already proven to be helping states such as Greece get out of debt and control their spending. The problem is that the populace of Greece would rather see a quick fix and fewer cuts. Steinbruck’s idea would also work well but would take more time. It would concentrate on building relationships with all members and having multiple states provide bailout funds, instead of solely Germany. Only time will tell which path the European Union will take but depending on elections this fall, it shouldn’t be difficult to predict.

It is always difficult to predict the future of institutions as large as the European Union. It is ultimately unknown if the European Union will be around in the future, but it is certain that the member states that make up the European Union will be. This may simply be enough to preserve the European Union as we know it today. Throughout the history of the European Union, there have always been challenges that have faced this institution. Such challenges have been the introduction of the Euro, which still hasn’t been adopted by all members of the European Union, along with just the basic cooperation of each member with each other. Current
problems that have arisen have been numerous, but none more important than the problems with Greece. With the possible exit of Greece from the European Union and the Eurozone, it could threaten to unravel the very foundations of the European Union. This is the point where Germany takes the forefront. It has been Germany, and almost Germany alone, that has kept the European Union afloat recently. By providing funds to bailout Greece, Germany has effectively been keeping the members of the European Union together. It has shown that it is possible to keep the European Union together, with Germany at the forefront, and even during a global recession. It is then reasonable to believe that the European Union will last for years to come.
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