

The Political Page

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Europe's Core-Crisis

Information

Euro-Storm in May

Jean-Claude Trichet, Head of the European Centralbank (EZB) in Frankfurt judged the earnestness of the situation with the words: "This is the most difficult situation since World War II, maybe even since the First World War."

At first, the main focus was on saving Greece from national insolvency. Until years end, Greece had filed for 45 billion Euros, 8.4 billion of which Germany was expected to carry. In an urgent decision on Friday, May 7, 2010 this guaranteed aid was resolved so that the Chancellor was able to present the agreement at the Summit in Brussels that evening.

However, while the German Parliament was concluding the aid program to Greece on Friday morning, it was discovered at the Centralbank in Frankfurt and the Commission in Brussels that the finance markets were changing from hour to hour like a mounting storm: the bet was not only going concerning the downfall of Greece, meaning that no one was longer willing to lend Athens money, not even at an interest rate of 11% , but nearly all the countries in the Euro-Zone suddenly were not receiving money from the finance markets. No one even wanted to buy bonds from France. Due to the uncertainty of the reimbursement for bond issues from Portugal, Spain and Greece the interest rates shot up to nearly 38%!

Due to this situation, the banks also were not giving out money and hoarded it, similar to the finance crisis a year and a half ago. The money market in Euro-land dried up. It became clear: now it does not only concern saving Greece, but in saving a number of countries, it concerns the Euro in general, as a collective currency.

The meeting of country and government heads on the evening of May 7th, which was, in any case, already agreed upon to wave-through the aid for Greece, suddenly became, within hours, a historical emergency session to save the Euro.

And, naturally, behind this awareness, was the question: if it is not possible to show the speculators, who are betting on the breakup of the Euro, in unity and with a collective concept, that they will never reach this goal when this does not succeed and the association of European countries are not able to help themselves, what value then does the European Union (EU) have? In addition to the defense of the Euro, the survival of the EU also is at stake.

The French president, Sarkozy, speaks of a necessary "general mobilization" in the fight for the Euro against the speculators. He brings it to the point when he says, "The Euro is the Union and the Union is Peace." And the President of the Commission, José Barroso, adamantly declared: "We will defend the Euro, regardless of the cost."

As well, Angela Merkel: "If the Euro collapses then not only the money but Europa will collapse."

It is agreed that, by all means, a protective shield will be erected around the Euro. It is left open how much this is allowed to cost and how it is to be constructed. The Finance Ministers, in close contact with their government heads, will decide this 2 days later, on Sunday, May 9th.

The Conclusion: the Emergency Parachute

On this Sunday, Angela Merkel had much to bear: that morning she stood on the grandstand between Putin and Hu Jintao at Red Square in Moscow to honor the military parade celebrating the 65th anniversary of the victory over Hitler-Germany. Afterwards she hurried back to Berlin, where the news reached her that Wolfgang Schäuble was admitted to the hospital in Brussels and would not be able to take part in the historical meeting of the Finance Ministers. Immediately she called Thomas de Maizière in Dresden and asked him to fly directly to Brussels to fill in for Wolfgang Schäuble. The meeting began at 6:15 p.m. and he arrived in the conference room shortly past 8:00 p.m. In the meantime, Angela Merkel has to cope with the defeat of her Party in NRW (Nordrhein Westpfahlen), however the attention was on the happenings in Brussels.

Then Obama called. The USA is worried about the slow decision-making processes in Europe, due to the fact that things happen in the Markets in a matter of hours and often only in minutes. And also, Obama is concerned about the extent of the emergency parachute. Therefore, Obama calls Angela Merkel again, personally, since she always votes for the small and manageable solution. Obama encourages her personally and says: "Act boldly, Angela!"

Afterwards, Obama calls Nicholas Sarkozy. During this discussion the sum of 500 billion Euro is mention for the first time. For a long time Angela Merkel goes against the proposal in order to gather as much concessions for her concept as possible. Finally, at 2:00 a.m. in the morning, as the stock exchange in Japan opens, she agrees to the astronomical sum, under the condition that

- the International Monetary Fund (IMF) will participate: in an absolute emergency they will assure their participation with 250 billion.
- the funds only will be allocated in connection with strict savings requirements to the recipients.

Shortly before 3:00 a.m. the Chancellor went home. A historical day! On the other hand, she knows what this decision means for Germany.

Summarized, this conclusion means:

- The governments of the Euro-Zone commit themselves to save member countries, who are in financial difficulties, from bankruptcy through subventions up to 440 billion Euros. This is not a question of cash but rather only an assurance of assistance. One hopes that these assurances will never have to be drawn upon. However, should they ever be needed it is not meant to be given as a gift, but rather as normal

interest-rated loans with concrete reimbursement requirements. Only in the case of inability to pay back the loans will there be concrete disadvantages for the donors.

- The deals will be processed through a newly created “special purpose vehicle”, which provides monies from the world market for needy countries at normal interest rates since reimbursement is guaranteed through the promise of the EU. These countries are then speculators and have escaped their usurious interest.
- In an emergency 440 billion Euros are permitted to be allocated through the special purpose vehicle and 60 billion through the Brussels Commission.
- Additionally, the European Central Bank (ECB) declared itself ready to buy risk-rated government bonds from over-indebted States at normal interest rates thus providing these countries with additional liquidity.

In this way, the opened emergency parachute is a potential guarantee from the richer countries for the endangered, hoping that they will never have to draw upon the prospective guarantees, but rather out of their own strength, over the years to come, through saving and economic growth, will be able to pay interest and amortization.

Naturally, the risks are:

- that they must accept these offers in larger amounts and therefore much money will be circulated and the danger of an inflation could exist.
- that the PIISG countries (Portugal, Irland, Italy, Spain, Greece) will misunderstand the guarantee as a “resting place” and over the years their efforts towards budget discipline will become slack.
- that, due to the economical development of a country, monies that have been paid out will not be able to be reimbursed and must, therefore, be written off.

Solidarity and Solidity

Solidarity and solidity are two principles which cause tension between themselves but both are necessary for the Euro to survive, and in a further sense, are necessary for the EU. In the EU they are personified in the person of Nicholas Sarkozy and Angela Merkel. In addition to both of these persons is the national heritage of the French and the German. That Merkel acts as a woman, of her kind, and Sarkozy, as a man, in his nature gives the matter an additional but beneficial turn. Since Germany and France are the largest countries and economies in Europe, it is important to have good harmony between these persons in top-level functions. Giscard d'Estaing and Helmut Schmidt were friends, Francois Mitterand and Helmut Kohl also, Jacque Chirac and Gerhard Schröder were linked together more by anti-Americanism and Nicholas Sarkozy and Angela Merkel are joined throughout the years rather out of respect than with a great affection for one another.

In the current problem of saving Greece and the development of the Euro-parachute, it was of strong interest to Sarkozy to stage himself as Europe's rescuer, which, at the end of a long conference-night, he well accomplished, perfectly prepared by his delegation. While Angela Merkel spoke 3 meager sentences into the microphones on her way home, that the “Euro-group” would give a clear signal to those who want to speculate against the Euro, spoke Sarkozy from the impressive backdrop of the flags of the 16 Euro-countries, which was erected by his collaborators. He sees himself as

the man who saved the Euro. The catchwords “General mobilization” and “The Euro is the Union and the Union is peace” were dropped here. And without this being agreed upon or even decided upon, he said: “We have decided to install a veritable economic government for the Euro-zone.” The big gesture is always important for Sarkozy. But he really did bring the necessary dynamic into this situation. Angela Merkel’s careful touching was not enough; some even say that it damaged and discouraged the speculators. Sarkozy wanted solidarity, he wanted to assist quickly and immediately, regardless of the cost, new debt regardless how high. In the end, with a gigantic sum of 500 billion Euros, he was successful.

Angela Merkel wanted solidarity. She already linked the assistance for Greece together with a savings budget for Athens, which had been amended twice and she also was adamant about the connection between the payment of assistance only to countries with the proof of substantial reduction of costs. In this she was successful. She also was successful in pulling the IMF into the boot.

Naturally, at first, this seemed like a lack of solidarity, but it wasn’t; rather it was the recognition of where the root of evil was to be found.

The Root of Evil

Surely, up front, speculators were the cause of the crisis. Like with nature, parasites only ever have a chance when the infested organism is weak and sickly. Likewise, in this case, the first question is not to fight against the parasites, but rather to strengthen the European community. Of course, one must think about finding the best way to keep the parasites away, meaning how one can best put a stop to the speculators and set up rules for the financial markets. But the real problem is how do we keep the national economy healthy? The EU defined “healthy” as: when the new debt of a country does not exceed 3% of its yearly economic performance (GDP). By the way, currently, due to last year’s finance crisis, no country fulfills this standard. Angela Merkel wants to make a mark. In order to regain leadership on public opinion in Europe by being an example, the Chancellor pushed the approval for the mega-amount of 123 (max. 148) billion Euros for the Euro-emergency parachute through parliament. Besides this, she is in the process of submitting a savings budget for 2011, which after next year should make it possible to save an additional 10 billion each year.”The same thing we expect of the Greeks we should expect of ourselves as well.”

In Germany in 2008 a “debt-limit” for government deficit was defined in the constitution, which will become valid for the Federation as of 2016. Germany wants to demonstrate to other countries that this is wise and will help the country to save. What help is the most gleaming example when others do not follow and even laugh at you as being the “model student”? In all of the PIISG-countries in southern Europe, except Ireland, there exists a different view towards saving, honesty and transparency, especially in view of corruption, than in Germany and in the other countries of middle and northern Europe. It truly makes no sense if the EU would become a permanent transfer-alliance of northern countries for the southern countries.

Hence, a surveillance over budget discipline in some form is needed. Thereby, the fundamental rights of a national parliament, to advise on the budget of the country, should not be affected. This applies especially to Germany, where in 2009 the Federal Constitutional Court, in its decision on the Lisbon-agreement, emphatically pointed out the rights of national parliaments. However, in the future, there must be

some sort of surveillance in the Euro-zone. On this point the German and the French governments agree; likewise, towards an intensification of the stability-pact. In 2002 the Euro was implemented as the collective currency without simultaneously setting up a central office with the assignment to register the various developments within the countries and, where necessary, to correct them effectively. Instead, the Maastricht-agreement was developed, which prescribed a binding stability-pact for all Euro-countries.

This stability-pact intends, among others,

- that new debt is not allowed to exceed 3% of the gross domestic product (GDP),
- that those who range higher than 3% will be expected to pay a penalty,
- that no other country *must* help another country, if they have payment difficulties (No-bail-out-rule, meaning no one must put up a guarantee for another one).

One of the first to break the stability-pact was Germany. Through many discussions with colleagues the Finance Minister at the time, Eichel, 2003 and 2004, was able to prevent having sanctions from the Commission imposed on Germany. Due to this, of course, others claimed the right to do the same, like the model student. In the 90's, under Finance Minister, Weigel, it was Germany who insisted on committing to these stability criterion. In spite of all the resentment, today the Germans cannot point self-opinionatedly towards others. Germany can only be insistent on returning to the pact and, out of the experiences made, to install better control mechanisms.

Most of them have often lived above their means (=their income) and have submitted debt-budgets, which were often "sugar-coated" and with this, have put burdens on the coming generations. The stability pact has been broken approximately 43 times in the years since the Euro has been implemented.

The No-bail-out-rule of the Maastricht-agreement also has been overridden, even when direct-aid was avoided and a special purpose vehicle was used. But in view of the new situation, a new stability-pact is necessary. "Until Sunday it was forbidden to help other countries in the Euro-Zone. One said: Your debt is your problem. Since Sunday it was said by a voice from Paris: "Your debt is our debt."

It is not otherwise imaginable except that this new step towards structural solidarity find expression in further levels of mutuality. It won't work in any other way. Those who want a common currency must also say "yes" to a common monetary policy.

How the gamblers work?

How can one come to money quickly.

a.) One borrows a bond worth 100 Euros for 4 weeks at the price of 2 Euros and then sells it for 100 Euros. Then bad rumors are spread about this company. Result: Their bonds lose 20% of its value. Now the paper is re-bought for 80 Euros, the lending-fee of 2 Euros is paid, then it is given back and the remaining 18 Euros is "earned" without having to lift a finger. If seven zeros are added to this sum, then at one go 180 Mio. Euros was gained.

b.) Because Josef Ackermann doubted on television that Greece could pay back their debt, he expected that Greece - even if it would receive money from somewhere - automatically would have to pay him a high interest rate, if he would give the country money. One percent of billions already is "umpteen" millions.

c.) Betting is a complex business of its own. When someone bets at high stakes that Greece will go bankrupt, what would he do? By scattering bad rumors and campaigns he would do everything to make certain that no one would give Greece

more money, except for the high-interest cutthroats, through whom his goal is reached.

d.) If the speculators who loose the bet (or other risky businesses like derivatives) come from a major bank, so that they themselves could go bankrupt, they will be saved by State tax money, if they are seem as “relevant to the system”, so that in the end, the small savers are not the losers.

Since the big finance crisis in 2008 many proposals have been made as to how the speculations, how the entire finance world, should receive rules because, up until then, absolute freedom had reigned in this sector. For example, it was discussed putting a tax on transactions (trading) with bonds, from an overall bank levy, from a general separation of savings assests and money with which a bank can speculate but where the risks must be carried by themselves even up to the point of bankruptcy, thereby without the assests of the small savers being lost etc. Naturally, these rules must be enforced worldwide, since the players could withdraw to uncontrolled financial centers. However, since nothing can be implemented internationally, not much has been accomplished.

The good thing about the current crisis is that new efforts are being made. For example, even the federal government is pressing ahead with a ban on “bear raiding” (empty sales) (case A) in order to finally bring movement into the regulation of the finance markets. Surely, every solo attempt in a union is problematic, however, in this case, this step is certainly justified and, hopefully, will soon be adopted by the other Eurozone governments.

Germany – the paymaster

Germany, in the heart of Europe, with its 82 million inhabitants, is the most populated country in Europe. But not only that, it also has the strongest economy and, until 2008, it was the world-export-champion. Applicable in 2008 was:

that 63.3% of our trade was carried out within the framework of the EU with 176.3 billion surplus. In comparison: trade with the USA made up 6.7% of the German foreign trade. From 1995 until 2008 export rose more than 7% per year. Essentially, Germany can thank the Euro for this. Everyone who is somewhat familiar with economics must say that Germany is the greatest winner through the Euro. The monetary prosperity of this country is due mainly to the Euro.

The return to the Deutsch Mark, including all of the other countries to their national currencies, would be a major set-back for the German economy, because, as in the past, it would have to react to the continual devaluation of the exchange rates of those other countries. With every devaluation, i.e., the Lira in Italy, German products in the showcase would become more expensive. Everyone who has travelled as a tourist in Euroland was happy about the common currency and about the comparability of prices.

The situation in Greece today (that it is to be driven into bankruptcy by “wolves” through speculators and through Hedgefonds) was at that time more likely to have happened to them and to all of the other weak economies than it would now, if they stood alone. The strength of Germany is known throughout Europe and the world. Insofar, Germany cannot hide itself when it comes to questions of financial politics. According to the opinion of the President of the European Central Bank, Trichet, Germany should take over a stronger roll in the debt crisis. He said: “Germany is the largest economy in the Euro-region and a country with healthy national finances.” Correct! However, we cannot shoulder everything, so from time to time, it is

eventually very useful for Germany to go solo or to refuse, which could lead to international irritation.

BACKGROUND

1. As it were, we find ourselves in a war. This is not a war on an open battlefield, rather with an elusive enemy. It is a war between the democratically elected European governments, who need much effort in decision-making, and individuals, the speculators, who react at lightning speed, to their own benefit. Up until now, they are not under any legal control. The age-old question is posed anew: "Who rules the World?" Not a few have already resigned due to previous experiences and say that the democracies of the finance world are inferior, meaning that they cannot win the battle. Why: Because they pursue different interests and are not able to agree on global measures – and only these would be effective.

2. Even though it is a known fact that the speculators operate worldwide and are able to withdraw to non-regulated "Oases" without difficulty, the countries should start to set up capital market regulations for their areas, even it is only on a national or continental level, at first.

Seen historically, many of today's entities functioning as major systems, have grown from the bottom up into that which they are today, through the continual appearance of additional category groups: take the development of today's Switzerland through the appearance of new cantons added to the original three cantones. And isn't the EU itself the best example of the evolution of the historical appearance of a never-before known:

convention of 27 independent nations in peace and freedom – based on six countries, who bonded themselves together in 1957 in the Roman Treaty.: France, Germany, Italy and the three Be-Ne-Lux countries? This succeeds when expectation is not put on the maximum demand of the final outcome, rather that "the day of small beginnings" is not despised. It could be that the pragmatic, much criticized national solo attempt of the Germans in forbidding all "bear raiding" (empty sales) was a "small beginning", which will pull along the rest of the Union.

3. This phrasing, „the small beginnings“, which "should not be despised", is a quotation from the book of Zacharia, Cap. 4,10. "Who despises the day of small things? Men will rejoice when they see the plumb line in the hand of Zerubbabel."

This is a prophetic word of encouragement to the leader of the reconstruction of Jerusalem after the Exile. "What are you, O mighty mountain? Before Zerubbabel you will become level ground. Then he will bring out the capstone to shouts of God bless it! God bless it!" But God defines what actually stands behind the outward occurrences: "Not by might nor by power, but by my Spirit, says the Lord Almighty."

And how does this apply to the EU?

At the beginning of the European conciliation movement on May 9, 1950, as the French Foreign Minister, Robert Schuman, presented his plan for closer cooperation, especially between France and Germany, he did this on the basis of his Christian faith, where reconciliation and forgiveness is made possible. Unity in Europe did not happen through an army or military power, but rather through the acting of the Spirit of God.

That is why the refusal to accept God-related elements in the basic principles – or the reform agreement from Lisbon is not only a gross error, but rather a complete misconception of the actual power, which paved the way for the unity of Europe and which carries it, namely the reality of the “godly Spirit”, without which it would not continue. Since 2004 (the year the “Constitution” was adopted) Europe stumbles from one crisis to the other. First the vetos of the “Constitution” by France and Holland, then 2008 the veto by the Irish to the Lisbon agreement, then the World Economic and Finance Crisis and now the Euro crisis, which in its core is an EU-crisis and, which could cause the Europe-project to break up.

4. The crisis is not caused by an excess of integration, but rather through a deficit of integration. The installation of common finance and economic politics was not desired as a basis for the common currency, which, in fact, would have been necessary. This step seemed to the Fathers of the Euro too big. So, they agreed to the so-called “Stability Pact”, on Feb. 7, 1992 in Maastricht and, at that time, optimistically changed the name of the “European Community” to the “European Union”. In this way a new accountability was established, i.e., in the Foreign and Security Policy or in the area of Justice and Interior. When the Euro was introduced in 2002, this made way for good hope in the sector of finances.

Here though, in the area of money, commonality failed. The countries falsified their deficits into “special budgets” and the Commission in Brussels was not strong enough to enforce penalties.

5. The crisis had a positive effect, in that each Euro-country realized that the agreed upon regulation – no more than 3% new debt, measured upon the economic achievement of the country (GDP) – is to be strictly adhered to, including sanctions.

The assesment of all household budgets through a common authority (Commission? Advisory?) is to be newly implemented before the national parliaments make resolve upon these budgets.

Europe-wide valid regulations measures for the finance markets are also to be newly implemented – and immediately!

New, as well, would be to establish a “European Monetary Fund” as an emergency fund for countries in financial difficulties, in order to be able to act faster in similar crises.

6. How do we continue?

The debt of the European countries, no doubt, will increase, in average, to double their GDP. Therefore, in the next 4-5 years it will be there homework to consistently reduce the national deficit, so that through growing stability the trust of the markets can be regained and speculations of their break-up can be warded off.

On the other hand, Europe must stand up to the competition against the USA, China and India, both of which, consequently, will require a considerable amount of national effort and improved continental cooperation. Everyone must help one another. The countries of Europe have a chance at the future but only collectively. The world economic crisis two years ago, like the Euro crisis today has made this clear. Only together are we strong.

This seems to be God’s way for Europe. But Europe can only find it with God. Without HIM we will end up at the Tower of Babylon.

Let us not have to learn the hard way, even more.

PRAYER

1. You must love Europe if you want to pray for Europe. And whoever begins to pray for Europe, begins to love it. Does God love this our continent? Definitely!
2. a. Therefore, let us share God's pain, that those to whom He only has done good for centuries do not accept Him (Joh. 1: 5, 11).
b. Let us breach the gap by doing proxy repentance, that the darkness does not come over our continent.
c. It is a serious time! Let us ask God for mercy, even when He must punish us. Let us understand that all of the deep crises in the past years were blows from our loving God (Heb. 12,5ff). He wants us to turn to Him. Adversity teaches us to pray. Let us do this from the bottom of our hearts. Not upon the amount but upon the earnestness lies the promise (2. Chr. 7:14).
3. Let us pray for politicians who, as praying Christians, recognize the connection between sin and remoteness from God and who recognize concrete political courses of events and who can react spiritually to them; politicians for whom God realistically deals politically and, therefore, for whom prayer is a political act.
4. Let us pray for our people for a spirit of willingness to accept the increasing restrictions on public services. All of us have lived over and above our means. And let an atmosphere of understanding and support to understand surround us. Let us pray against the spirit of revolution and resignation. Let us, as individuals and as churches, be ready to help in concrete emergency situations.
5. Let us pray that the national budgets of the PIISG-countries and all the others will get back in shape, once again. Let us pray that sensible rules for the finance market will be found, which will make trading possible but will put a stop to the "throatcutters" craft. Let us pray anew against the power and obsession of "mammon", which at the same time, is the demon of avarice. This is idolatrousness and idolism (Col. 3:5).
6. Who controls the world?
"Our God is in heaven; He does whatever pleases Him." (Ps. 115:3).

Ortwin Schweitzer

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