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The Recasting of Twenty-First-Century Germany: An Opportunity of Crisis

On April 30, 1945, the capture of the Reichstag building signaled the end of the Second World War, Germany’s defeat, and its new evolving role in European affairs. In July 2012, in that same building, the Bundestag voted on new EU financial rescue measures. The current financial and sovereign debt crisis is an opportunity in which Germany can definitively reconcile itself with other European nations and become a seminal leader of the EU. Germany can forge the development of deeper social and political integration by using this opportunity to lead, not dominate, the crafting of non-zero sum solutions. This can be done by establishing the EU as the seat of solutions. German Studies can greatly benefit from learning about Germany’s twenty-first century transformation in the next couple of years because it will be a period in which Germany, as a separate cultural, political, and economic entity, is rethought due to its commitment to the EU.

European integration, like many cooperative endeavors, is an exercise in collective action. Outcomes that require cooperation among actors, whether they are people or countries, eventually run into the problem of collective action. If countries act in a zero-sum manner, then it is unlikely that they will experience outcomes such as integration. What better situation is there if one country obtains all the benefits without assuming costs? When countries interact in this manner, we have suboptimal outcomes: none of them cooperates. One way to solve the collective action problem, the dominance strategy, is to monitor countries that attempt a free ride and sanction them accordingly. The dominance strategy can work, but sustainability is difficult because the consistent monitoring will overtax the capabilities of the most powerful countries. The leadership strategy, in contrast, would convince actors to cooperate voluntarily, relegating the sanctioning of free-riders to a minor function. The leadership strategy is about gaining voluntary cooperation through the development of institutions that craft favorable common identities, which leads to a positive sense of self. Identities are consciously created. If leaders can convince actors to form a cohesive group, then they obtain the voluntary cooperation needed to sustain collective action. As a result, leaders can lower the costs of cooperation.

Germany’s evolving role in European affairs is a transformation from collaborative leadership with France to the role of predominant leader. In the early years, the postwar reality prevented it from establishing itself as a force leading European integration. Given time, financial assistance, and the hard work of the German people, Germany rose economically from the ashes.

One thing, however, that could not be quickly changed was the war’s stigma. Perhaps this stigma was endogenous to German politics, or it came from external reminders, or both. The fact remains that Germany continued to be a reluctant leader and continued to partner with France in moving Europe into an “ever closer union.” The pinnacle of this effort, so far, is the Economic and Monetary Union (EMU). This
established the euro as well as a set of principles, benchmarks, and conditions that member states would follow in order to maintain a truly integrated economic market. The EMU came at a time of European and German transformations due to the end of the Cold War and the unification of Germany. Germany was well positioned to craft the EMU along its preferences, which it did to a certain extent. The criteria for joining and remaining in the Eurozone, the governance of the European Central Bank, and the principles of orthodox monetary policy all come from the German policy handbook. It is also important to note that these preferences ran against the policy handbooks of many eurozone partners. (Italy is one example.)

However, Germany could not win on one issue: how to handle those that did not follow the rules. Given that the member states did not create a truly supranational sanctioning institution, it was up to the European Council to deal with this issue when it came up. Germany failed to produce a sanctions regime due to its continuing stigma. How can this former aggressor, who has already insisted on formulating the EMU on its own terms, convince other member states that it would lead the effort in punishing those countries that violate those terms? Germany was not yet a leader in its own right. Its stigma required it to rely on France and not project a forceful image.

Many have argued that the current crisis was born out of the lack of member states' accountability. The current crisis also comes at a time of German unity, however one that comes out of significant investment in the East and review of fiscal discipline among all the federal states. Economically, Germany is in better economic shape than its European partners. These facts point to a clear position for Germany to lead the way through the crisis. Now the question is whether to lead or to dominate. To dominate is to approach the problems of crisis through the enforcement of the euro rules, which would mean the sanctioning of wayward partners. This carries the burden of subordinating the people of these countries to austerity. Added to this challenge is a zero-sum message: why should Germans pay for the faults of other countries? The message does not encourage the formation of a common identity; rather it is one of ultimatums that reinforce an “in-group” and “out-group” existence among European nations.

As Germany navigates these waters, German Studies should keep a watchful eye, because we may witness a new German leadership of Europe, one that will require us to rethink the German image in political, cultural, economic, and historical terms. German leadership can guide Europe out of crisis with plans that foster European identity. For example, austerity needs to be coupled with the expansion of the European financing of services. The problematic countries would need to cut budgets, and the EU would need to fill in the budget gaps. Another step would be the formation of a European taxing authority. A European-wide income tax would be necessary to foster the fiscal federalism that is currently in place in countries such as Germany. The proposed taxing authority undoubtedly will require Germans to pay out more than others.
German Studies can help in developing this strategy of replacing national authority in problem countries with supranational authority. It could convince people to accept austerity if the bailouts included not only help for banks and governments but also for the average citizen. The key here is to recognize fully that the people of problem countries are also European citizens, as enshrined in EU law. Therefore, there is an obligation to help them as part of the social contract governments have with their citizens. If efficient European policies substitute for faulty national policies, then the average citizen will adopt new values and a common identity. If successful, the alignment of norms, values, and identity can lead to greater fiscal responsibility and a more solvent Europe. The thanks Germany would receive would be the removal of the last vestige of its wartime stigma.

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The Consequences of Crisis: A Call for Coordinated Leadership

The suggestion of EU failure provokes divergent reactions from policymakers. On one side, policy experts predict doom for the euro and the entire EU, highlighting a lack of coordinated leadership in the capitals of the member states that increases both populist nationalism and broad discontent as the bite of austerity measures starts to sting. The second response, typical of “eurocrats,” suggests almost willful denial of a credible threat and an insistence that the euro cannot fail: the currency project is irreversible, the costs of failure are too great to consider, and the only solution to the crisis is to strengthen the EU and empower its financial institutions. European Council President Herman Van Rompuy summarized this policy prescription at the 2012 Europe Conference: “The answer to end the crisis is more Europe, not less Europe.”

Euro-optimists rely on the historical experience of the EU, where several crises have been resolved by increased European integration. For example, the EU was formed in response to the challenge of postwar reconstruction; it experienced quick institutional development in the 1980s as a reaction to the economically damaging “Eurosclerosis” of the 1970s; and it enforced the reformatory Lisbon treaty after the European constitutional crisis of 2005. These experiences led several analysts and policymakers to claim that crisis is an important catalyst, and perhaps even a prerequisite, for European integration.

The prediction that crisis inevitably promotes integration is too simplistic, partly because it assumes all crises present the same type of challenge to the EU. Ludger Kühnhardt develops an important analytical distinction between crises in and crises of European integration to these ends. Crisis in integration suggests challenges to the mechanisms of integration or trouble achieving policy goals. While crises in integration can be serious and distressing, they do not challenge the legitimacy of the European project and are common occurrences in the EU. Crises in integration can be resolved with an appropriate political response, but when a policy response is inappropriate or