http://www.spiegel.de/international/europe/french-intellectuals-put-the-franco-german-axis-on-the-couch-a-850197.html

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Rocky Relationship

Attraction and Repulsion Define French-German Relations

By Romain Leick

Together, Germany and France have long been viewed as the motor of European integration. In the midst of the economic crisis, however, old suspicions and rivalries between Europe's two key nations are being reawakened. Once again, the German approach has France's intellectuals mystified -- and the tone is getting sharper.

The unfailingly vigorous chronicler of the glorious and heroic deeds of Frenchmen gazes out of his living room window, across a large square, at the massive Pantheon in Paris, where the grateful fatherland pays homage to its great men (and a few women).

Author Max Gallo, 80, a member of the Académie française, the intellectual high court of the nation, views himself as a "republican patriot." He has spent four decades of his life searching for France's historical identity.

The list of his popular books comprises more than 100 titles. He churns out best-sellers about the French Revolution, Napoleon, Victor Hugo, Charles de Gaulle and World War II. Who could lay claim to knowing the soul of the French people, in all of its nostalgic ramifications, better than this keeper of the seal of a long-faded political sense of mission?

Europe seems to have established a special culture in celebrating round anniversaries of important historical events. With yet another approaching, Gallo is currently working on a book about the months leading up to the outbreak of World War I, the seminal catastrophe of the 21st century, in August 1914. During his work, he noticed an intriguing and unsettling parallel to the current crisis in Europe. Just as in 1914, says Gallo, current events could also trigger a chain reaction, driven by nervousness, panic, conflicts of interest, alliance obligations and practical constraints, which could ultimately defy control by politics and diplomacy.

A hundred years ago, says Gallo, it was the mobilization plans of military leaders, worked out down to the last detail, including train departure times, while today it is the anonymous market powers, banks and market traders, with their computerized commands, that have plunged all key players into "prognostic impotence" and a "chaos of improvised decisions."

Doubts in German-French Relationship

Does the historian and author truly believe that the lights could go out again throughout Europe, this time in a fratricidal war over financial and economic policy? In response to Gallo's appealing and yet seemingly absurd comparison, one could point out, as German philosopher Peter Sloterdijk has done in his remarks on German-French relations since 1945, that Europeans are no longer making war preparations, but instead are solely focused on concerns about the economy. "They have forsworn the military gods and completed a conversion from heroism to consumerism," says Sloterdijk.

Is this sufficient reassurance? Judging by what committed French intellectuals are saying this summer about their perceptions of the crisis and the distribution of roles between Paris and Berlin, it is clear that they are not willing to simply release the two countries, once enemies and now partners (at least according to official parlance), from their passions and the shackles of history.

Each of the two leading powers, Germany and France, possesses a key, and the keys can only be used together to liberate Europe from its tower of debt and the fetters of the financial markets. If Berlin is willing to cooperate, that is. But the German government's intentions are mysterious. There is an unspoken suspicion that German Chancellor Angela Merkel, that unemotional heir to former Chancellor Helmut Kohl, a sentimental advocate of France, could be pursuing a hidden agenda, and that her secret goal is to prepare Germany, the world's third-largest exporter, for the fight for survival in the age of globalization.

Doubt has suddenly crept into the German-French relationship, as with an old married couple that has lived together for too long, in benevolent, ritualized indifference, and is suddenly consumed by suspicions. Ironically, this is happening almost exactly 50 years after the two countries' great postwar statesmen, former French President Charles de Gaulle and former German Chancellor Konrad Adenauer, attended a "mass of reconciliation" in the magnificent Reims Cathedral on July 8, 1962 and, six months later, in January 1963, signed the Treaty of Friendship between the two countries.

During the horrifically banal remembrance of the solemn Te Deum at Reims by De Gaulle's and Adenauer epigones François Hollande and Angela Merkel a month ago, there was no mistaking the lack of originality of the two protagonists.

Where there should be eternal solidarity, trouble is brewing in the friendship. "It's a disturbance of the osmosis, a growing ignorance of the other partners," says Gallo, whose son, also an historian, has just completed a study visit to Berlin. During his first trip to Germany after the war, Gallo says he had "goose bumps" when he saw uniformed officials at the border. "It was still like stepping into another world."

A 'Lack of Empathy'

Business professor and author Jacques Attali, 68, a longstanding advisor to former President François Mitterrand, who brought the young Hollande into the Elysée Palace as a special advisor, also bemoans the "lack of empathy" that he says prevails today between the neighboring nations, as well as the inability of either side to put itself in the shoes of the other. In psychopathology, this lack of empathy as seen is a precondition for the commitment of atrocities and violence.

Attali cannot understand, for example, why the Germans are developing such an "obsessive fear of inflation" in the discussion over European Central Bank (ECB) bailout programs for debtor countries. The national bankruptcy of the German Reich in the wake of hyperinflation in 1922 and 1923 was a consequence of Germany having lost the war, says Attali. He believes that if there is a parallel to the current situation, it ought to be former Chancellor Heinrich Brüning's grim austerity policy during the post-1929 global economic crisis, which led to depression, mass unemployment, impoverishment and, politically, to the rise of the Nazis. Why, he asks, don't the Germans see the writing on the wall, and why do they use the "fictitious threat" of inflation and an imaginary wealth destruction machine as an argument?

Historian and demographer Emmanuel Todd, one of the harshest critics of Germany's economic ordoliberalism, even sees Merkel's "austerity mandate" and her "pact for eternal austerity" in the European Union as a form of "fiscal fascism." Todd believes that two opposing cultures are colliding in the euro zone: the German culture of free competition and the French culture of fraternal equality. Rivalry produces winners and losers, as well as jealousy, resentment and the willingness to engage in conflict. But a monetary union, says Todd, can only exist in the long term if it gives priority to the principle of equality, just as Germany, with its principle of inter-state fiscal equalization, irons out differences in the standard of living.

Has Geopolitics Returned to Europe?

France has also had its skeptics of the monetary union, who don't see the introduction of the euro as the accomplishment of a great European vision but as a ticking time bomb instead. Gallo, whose wife is a member of the European Parliament, voted no in the French referendums on the Maastricht Treaty and the treaty establishing a Constitution for Europe, because he predicted a renaissance of nationalism after the fall of the Berlin Wall. "Geopolitics has returned to Europe," he says.

In the 2002 presidential election, Gallo supported the left-wing nationalist Jean-Pierre Chevènement, a fierce opponent of the euro who saw the common currency as the beginning of a German instrument of domination or, in a sense, the Trojan horse of an age-old German hegemonic claim that has existed since Napoleon broke apart the Holy Roman Empire of the German Nation.

In his recent book "La France est-elle finie?" (Is France Finished?), Chevènement describes a "Germanocentric" Europe in which "France can make suggestions, but Germany gives the orders." Polls in both countries seem to confirm a renationalization of thought. According to the French Institute of Public Opinion (Ifop), only 31 percent of the French see Germany and 18 percent of Germans see France as their country's "preferred partner." These figures have been declining since 2003.

Rivalry or Complementarity?

They reveal the fragility of a relationship that is increasingly based more on calculus and less on affection. The two neighbors' view of each other is also a mirror in which each of the partners sees itself. For some time now two discourses, says German studies Jacques-Pierre Gougeon have shaped the image each of the two countries has of itself and the other: the rhetoric of decline and the rhetoric of ascension. Germany has become the absolute reference for France, says Gougeon, while the relationship between the two partners is a mimetic reflection of rivalry, imitation and projection. The French fear of being left behind, both economically and politically, reinforces the German position that it must assume the function of the exemplary role model in Europe. In the end, says Gougeon, this raises a key question: "Rivalry or Complementarity?

The future of Europe depends in large part on the answer to this question, says Gougeon. French Prime Minister Jean-Marc Ayrault, a former German teacher, has brought in his fellow academic Gougeon, professor at the University of Franche-Comté in the eastern city of Besançon and research director at the Institute for International and Strategic Relations (IRIS) in Paris, as an advisor. The appointment gives the title of Gougeon's latest book "France/Germany: A Threatened Union?" more than rhetorical significance.

Nevertheless, such different intellectuals as Gallo and philosopher Pascal Bruckner feel that Gougeon's question is the wrong one to ask. The problem, they believe, consists in the fact that the two countries are so closely intertwined -- through geography, history, the economy and politics -- that they cannot become disengaged. "It's like an old couple, who both love and hate each other," says Bruckner. "They can't stand to be apart or together, and divorce isn't an option."

Gallo likes to reconstruct the thousand-year German-French rivalry in various forms. The relationship, he says, has always been characterized by familial closeness and jealous distance, an ambivalence that sometimes produces creative and sometimes conflict-laden, permanent tension. When he saw and heard Merkel butchering the obligatory French words "Vive l'amitié franco-allemande" at the chilly commemorative meeting in Reims, he remembered, with irony, the Oaths of Strasbourg in 842. Half-brothers Charles the Bald and Louis the German pledged loyalty and support to each other. So that their followers would understand them, each man proclaimed his oath in the language of the other side. But by forming the alliance, they also sealed the division and breakup of the empire founded by their grandfather Charlemagne.

The mirror-image relationship, in which the Germans and the French have tied themselves to each other, both culturally and politically, could be described as a relationship between foreign relatives. It is characterized by a mutual fascination, what Bruckner calls "a sort of magnetism," which can be both attractive and repulsive, and has ended in violence again and again, in the Franco-Prussian War of 1870, World War I and World War II.

'Twilight Approaching over Europe'

Today France is in the process of losing yet another war, but this time it's an economic war, says cultural pessimist Bruckner, who sees a "twilight approaching over Europe."

Economist Henri Sterdyniak can translate the language of victory and defeat into numbers. According to his calculations, France has lost about 10 percentage points of its competiveness against Germany since the turn of the millennium, or roughly since the introduction of the euro. As a result, what was once a relatively even balance of trade is now a gaping deficit of more than €70 billion ($86 billion), while industrial production is declining and the government debt is on the rise, says Sterdyniak.

Sterdyniak is part of a group of economic experts critical of globalization who call themselves "économistes atterrés," or crushed or appalled economists, and are anticipating a possible crash landing of the euro. According to Sterdyniak, the monetary union was an "inane idea" from the very beginning, because it tied together what didn't belong together. He sees three possible scenarios for the future: implosion, decomposition or an emergency exit.

This sounds so menacing that Sterdyniak occasionally interrupts the explanation of his terrible visions with an ironic chuckle. He explains that the Germans would have to choose the emergency exit. In other words, they would have to deliberately compromise their competitiveness, essentially placing lead in their running shoes, that is, by significantly increasing wages and accepting inflation as a consequence.

Of course, government debt would also have to be guaranteed in the euro zone, through the European Central Bank and through joint liability in a fiscal union. This would be done in return for a promise by countries with deficits to consolidate their budgets. But there is an important caveat, says Sterdyniak, namely that the mechanical rules, which he feels are too rigid, of the fiscal pact Germany is imposing on all others are completely unsuitable." Sterdyniak calls the fiscal pact an alleged debt relief machine that leads only more deeply into debt." Does he believe that Merkel will play along? It would be like demanding that the Germans stop being German, says Sterdyniak. Like in the fable of "The Ant and the Grasshopper," the ant remains implacable toward the grasshopper. For this reason, says Sterdyniak, the most likely scenario is that Europe will continue along the path that Merkel has already proposed, that of slow decomposition, the rotting of the euro zone.

'The Tone Is Getting Sharper'

In the midst of such discussions, it seems that the preparations for the search for a scapegoat are already underway. The instrument of torture that can be shown to the Germans ought to be familiar from history: isolation, encirclement and pillory.

Anti-German resentments have not become virulent in France yet, and yet they are simmering just a few centimeters below the surface. "We are not in an open marital dispute, but the tone is getting sharper," says philosopher Bruckner, describing the psycho-political constitution of the troubled couple.

German intellectuals take a more relaxed view. In his essay Theory of the Post-War Periods, Sloterdijk -- who, next to Jürgen Habermas, is one of the few contemporary German thinkers respected in France -- argues that the pragmatic way leads to a "benevolent and nonviolent coexistence by means of mutual disinterest and defascination." "Don't be too interested in each other!" he counseled the archenemies and friends of convenience.

That was at the end of 2007, shortly after the financial crisis had begun its disastrous course. But the old demons are still lurking. What if Gallo were right with his hair-raising feeling that Europe, through its financial policies, could be drifting toward an August crisis like the one in 1914, with Greece assuming the role of Serbia, which Germany's conservative Christian Social Union (CSU) wants to make an example of?

Political veteran Attali, who was there in 1984 when Mitterand and Kohl shook hands across the trenches of Verdun, believes that it is politically dangerous and even foolish to declare a war between France and Germany to be inconceivable for all time. According to Attali, there are only two opposing strategies to overcome the crisis: Either Europe's core countries, led by France and Germany, pull themselves together and form a true federation, or there will no longer be a euro in a few years.

And if the latter happens, he says, there are numerous possibilities, ranging from a decline into geopolitical insignificance, to more or less outmoded regionalism and a return to drama in European reality.

Translated from the German by Christopher Sultan http://www.nytimes.com/2012/06/13/opinion/germany-cant-fix-the-euro-crisis.html

June 12, 2012

Why Berlin Is Balking on a Bailout

By HANS-WERNER SINN

Munich

ALTHOUGH Europe may seem far away from the economic life of the average American, the fate of the euro zone weighs heavily on the United States economy. Pension funds have invested in bonds issued by southern European states, while banks and insurance companies have underwritten a sizable fraction of the credit-default swaps protecting investors against default.

It's no wonder, then, that President Obama is urging Germany to share in the debt of the euro zone's southern nations. But in doing so, he and others overlook several critical facts.

For one thing, such a bailout is illegal under the Maastricht Treaty, which governs the euro zone. Because the treaty is law in each member state, a bailout would be rejected by Germany's Constitutional Court.

Moreover, a bailout doesn't make economic sense, and would likely make the situation worse. Such schemes violate the liability principle, one of the constituting principles of a market economy, which holds that it is the creditors' responsibility to choose their debtors. If debtors cannot repay, creditors should bear the losses.

If we give up the liability principle, the European market economy will lose its most important allocative virtue: the careful selection of investment opportunities by creditors. We would then waste part of the capital generated by the arduous savings of earlier generations. I am surprised that the president of the world's most successful capitalist nation would overlook this.

This does not mean there can be no systematic risk-sharing between the states of Europe. But for that to happen, the countries should first form a common nation, with a constitution, a common legal superstructure, a monopoly on power to ensure obedience to the law and a common army for external defense.

Otherwise, there is nothing to counter the strong centrifugal forces created by redistribution schemes, which would inevitably lead to political eruptions that would threaten the stability of the Continent. The European Union has enjoyed a long period of stability because it abstained from sizable interregional redistribution. This period would end if we redistributed incomes or debt without creating a United States of Europe.

Unfortunately, not one of these conditions is met in Europe today and won't be in the foreseeable future, because the euro zone countries, above all France, are unwilling to give up sufficient sovereignty.

Even a European nation, however, should not socialize debt, a lesson demonstrated by the United States in the 19th century.

When Secretary of the Treasury Alexander Hamilton socialized the states' war debt after the Revolutionary War, he raised the expectation of further debt socialization in the future, which induced the states to over-borrow. This resulted in political tensions in the early 19th century that severely threatened the stability of the young nation.

It took the experience of eight states and territories going bankrupt in the 1830s and 1840s for the United States to shed socialization. Today no one suggests bailing out California, which is nearly bankrupt but is expected to find its own solutions.

Criticism of bailouts in general does not mean, however, that Europe should eschew immediate help to crisis-stricken southern European countries. While help to avoid insolvency is dangerous, help to overcome brief liquidity crises is justified. The European Economic Advisory Group, an international think tank, has proposed providing liquidity help in the first two years of a crisis, with selective defaults according to maturity and socialization of excessive losses thereafter.

We are, however, already in the fifth year of generous liquidity help to Europe's uncompetitive members. Since late 2007, the European Central Bank has helped with an international shift of refinancing credit, also known as Target credit, from the core euro states to the periphery, to which the German Bundesbank has contributed $874 billion. Greece's and Portugal's entire current account deficits were financed that way.

Moreover, since May 2010, the E.C.B. has bought more than $250 billion in government bonds, while nearly $500 billion has come from rescue programs and help from the I.M.F. Add to that two European rescue funds, and you have a total of $2.63 trillion.

It is unfair for critics to ask Germany to bear even more risk. Should Greece, Ireland, Italy, Portugal and Spain go bankrupt and repay nothing, while the euro survives, Germany would lose $899 billion. Should the euro fail, Germany would lose over $1.35 trillion, more than 40 percent of its G.D.P. Has the United States ever incurred a similar risk for helping other countries?

Some critics have argued that Germany, having benefited from the Marshall Plan, now owes it to Europe to undertake a similar rescue. Those critics should look at the numbers.

Greece has received or been promised $575 billion through assistance efforts, including Target credit, E.C.B. bond purchases and a haircut after a debt moratorium. Compare this with the Marshall Plan, for which Germany is very grateful. It received 0.5 percent of its G.D.P. for four years, or 2 percent in total. Applied to the Greek G.D.P., this would be about $5 billion today.

In other words, Greece has received a staggering 115 Marshall plans, 29 from Germany alone, and yet the situation has not improved. Why, Mr. Obama, is that not enough?

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http://www.dbresearch.com/servlet/reweb2.ReWEB;jsessionid=5087ACD67FACD822DE2C75C7E8E1A271.srv-loc-dbr-com?rwsite=DBR_INTERNET_EN-PROD&rwobj=ReDisplay.Start.class&document=PROD0000000000293704

Deutsche Bank Research German Policy Watch

September 6, 2012

Do Germans still support the euro? Lessons from the polls

- As the euro area faces another hot autumn of national reforms and institutional innovation at the European level foreigners often wonder whether German citizens and voters will simply say "No!" to further financial assistance and deeper political integration. So far, this has not been the case.
- Recent polls by various institutes indicate that relatively speaking, Germans remain the staunchest supporters of European integration in general and rank with the most positive in international comparison amongst those polled. Yet, their overall support levels for the euro in general and the ECB in particular do not show solid majorities. Moreover, opinions are clearly influenced by a benign domestic economic environment, too, and are therefore subject to reversal risks.
- Germans firmly support their politicians as regards the general handling of the crisis but are worried about the economic outlook, the depth of the financial commitments undertaken already and Germany's ability to manage the crisis. Majorities are still in favour of stabilising the crisis-afflicted countries, with the exception of Greece, and optimistic about an eventual resolution of the crisis. Further attempts at political integration do not receive high support levels.
- While serious constraints from public opinion on electoral fortunes in September 2013 are not yet evident for most of the issues at stake this autumn, German public opinion emerges as a latent constraint on more forward-looking action to build a stable monetary union. Saving most of crisis-ridden Europe still seems to be a controversial task but politically manageable, but managing Greece will be a controversial uphill battle.

Foreigners often think that German citizens are likely to lose patience with their partner countries in the euro area, reject rescue measures, prefer to return to their once beloved D-Mark and by themselves represent the biggest risk to the stabilization of the euro area. We have been arguing for a while that this perception is too simple a view of a more complex picture. Germans have been, and still are, largely supportive of current government policies, with one notable exception: policy towards Greece.

Putting EMU on a much sounder platform by adding to the toolbox of national structural reforms, fiscal adjustment and enhanced euro area oversight via the "four unions" - namely financial market, fiscal, economic and political union - is not yet endorsed by a majority. Given the fact that all this is pretty new music that has not been described, explained and debated a lot in the media, there is clearly a challenge of marshalling support for those objectives.

More specifically, recent polls indicate the following state of play on German public opinion on the euro issue:

- Polled by the Pew Research Center's Global Attitudes Project in May 2012, Germans proved to remain the staunchest supporters of European integration among eight EU member states included in the poll (Czech Republic, France, Germany, Greece, Italy, Poland, Spain and UK), with 68% in favour (median: 60%). In contrast, support declined by 20 percentage points over a few years in Italy and Spain to some 60% in May. 59% of Germans polled consider Europe good for German economic performance, a minority thinks the same of the euro (40%), and the ECB is held in good esteem by only 40% – the latter being a lower value than in either France or Poland. 74% of Germans polled think that banks and the government are to blame for the recent financial crisis which is a pretty high level in comparison. However, concerns about unemployment, fiscal problems and inflation are clearly below levels in other countries and in line with economic realities. As in most other countries, a majority opposes more austerity and strengthened EU oversight of national budgets. Opinions are divided on financial assistance to other euro area countries (49% in favour, 48% against). Support from the political left is slightly higher than from the right (56% to 46%). 80% of respondents (only Germans) supported

Chancellor Merkel's handling of the euro crisis, the best result for any national leader in the questionnaire. However, only 27% have a favourable view of Greece.

- Polled by Infratest Dimap at end July for the monthly ARD Deutschlandtrend, a majority of Germans consider the current economic situation as good (57%) or very good (6%). The positive judgement reached a low in May 2009 at roughly 10%, but moved above 50% in November 2010 and has stayed at high levels ever since. There is clearly no sense of gloom in Germany now but 56% think the economic situation will take a turn for the worse over the next twelve months. On the euro issues, since early 2010 a vast majority has held the view that the peak of the crisis is still to come (84% in July) and feared a severe impact on the German economy from a potential break-up of the euro area (76%). However, Germans have positive views of meeting the challenge and fixing the euro area (64%). Chancellor Merkel's handling of the crisis is judged positive by 59%   much more than the government's policy in general (45%)   and a majority thinks the euro should be preserved. 51%, however, think it was a mistake to begin with EMU in the first place. On central bank policy, 39% think the ECB should stick to a narrow mandate on price stability only, whereas 45% do not feel competent to answer the question. Only 12% explicitly support bond market intervention. Strong majorities favour Ireland, Italy, Spain and Portugal as euro countries whereas only 31% favour Greece to stay in EMU. Angela Merkel and Wolfgang Schäuble are the top two German politicians in this poll, with 68% of Germans lauding Chancellor Merkel's performance.
- Asked by Allensbach pollsters about the role of the Constitutional Court, Germans support the constitutional review of the European Stability Mechanism by a wide margin (68% in favour) and a strong role of the Court in all legislation on crisis management in general. In addition, those who consider the Basic Law as being at issue have risen significantly in numbers (some 41% now). Significant majorities feel uneasy about the euro crisis, the rescue measures and attempts to deepen European integration with fiscal and economic union.

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German faith in euro and EU lags behind French - poll

Mon, Sep 17 2012

BERLIN (Reuters) - Almost two thirds of Germans think their country would be better off without the euro, according to a poll published on Monday which highlighted growing unease in Europe's largest economy about the costs of the euro crisis.

The survey for conservative daily Die Welt was carried out in July by TNS Emnid on just over 1,000 people each in the euro zone's top two economies, Germany and France, and in Poland, which is a member of the European Union but outside the euro.

Despite the continued resilience of their economy during the euro debt crisis, Germans are increasingly upset about having to bail out weaker euro zone member states such as Greece and fear that the crisis may erode their savings.

In contrast to Germany, only 36 percent of French people polled thought France would fare better outside the common currency, the survey showed. The French were also more positive about the general benefits of EU membership than the Germans.

Just over one third of the French respondents believed they would be better off without the EU compared to 49 percent of Germans polled.

Poles have little enthusiasm for joining the single currency despite strong support for EU membership, the survey showed. Only 18 percent of Poles surveyed believed they would be better off swapping their zlotys for euros while 76 percent thought they would be in a somewhat worse or much worse situation.

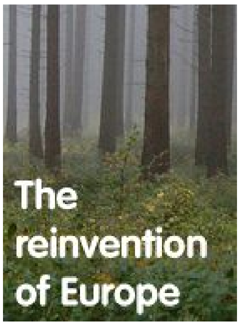
But Poles are more optimistic about the job prospects offered by the EU than the French or Germans. Many Poles have moved west in search of better-paid jobs since their country joined the EU in 2004.

Only 24 percent of Poles thought their employment prospects would be easier without the EU, against 37 percent of Germans and 34 percent of French people surveyed.

(Reporting by Stephen Brown, editing by Gareth Jones) http://ecfr.eu/content/entry/commentary_the_euro_debate_in_germany_towards_political_union

Reinventing Europe: Germany debates political union

By Ulrike Guérot - 05 Sep 12



As part of the 'Reinventing Europe' project, ECFR is publishing a series of papers on the national debates within EU member states over the crisis and the future direction of Europe. In the sixth of the series Ulrike Guérot analyses the situation in Germany ahead of the Constitutional Court's crucial ESM verdict on 12th September. A pdf of the essay is avaliable here. ECFR also published a guest blog post by *Carlino Antpöhler who explains the legal background and looks at the Court's options. Other essays in this series will also be emailed directly to those who have subscribed to our weekly updates. Click here for papers on the Netherlands, Italy, Poland, Bulgaria and the Czech Republic,* and a paper looking at the crisis from the perspective of Spain.

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Over the last couple of years the German debate over the euro crisis has been characterised as over-simplistic and tending to blame the debtor countries of Southern Europe for their own plight. Berlin's political response has been seen as reactive and lacking in the necessary vision to end the crisis. Now, however, there are clear signs that the debate over Europe is shifting focus. Angela Merkel's government is making an effort to move the debate away from being nationalist and populist, and towards being more constructive and ambitious. Mrs Merkel has now called for a political union and far-reaching steps towards integration, and has not excluded a new European Convention. With Germany so clearly at the helm of the European Union's response to the crisis, the implications of such a shift for Europe as a whole are clearly huge.

Germany as euro victims

The headlines in tabloids like BILD-Zeitung may have been the most obvious examples of Germany's particularly negative debate over the euro, but they were not isolated cases. The crisis has often been portrayed as solely one of excessive debt, and even German mainstream media has liberally reproached Greece and the other troubled debtor nations on the ground of being Europe's most successful nation. The debate has often been based on a very specific and introspective German understanding of economics, with limited space for the external voices or solutions that did not fit in with German economic wisdom. Despite this high-handedness, the German government has been accused of repeatedly only doing just enough to prevent the euro from collapse, failing to articulate a vision for Europe's future, and leaving the temporary fixing to the European Central Bank rather than providing policy solutions. Germans have also felt themselves the victims of the crisis, just as others have increasingly blamed Germany for the worsening economic situation.

Recent months therefore marked a shift from Germany's decades-old pro-European outlook, at the heart of integration and with public opinion (and all political parties in the era of West Germany) firmly behind 'Europe'. However, in the recent debate the benefits that had driven Germany's central role, such as the single market and political cooperation, were insufficient to convince the broader public that they had much to lose by the reversal of aspects of integration such as a euro breakup. This shift in public opinion can be seen in polling numbers, such as the 15% decline in those associating European integration with Germany's future between2010 and 2011.

This mistrust has been fuelled by economic elites' emphasis on specific German economic principles that insisted on austerity and stability and the narrative of the profligate South. This position reinforced German victimhood while failing to provide a vision for Europe beyond the slide-rules and spread-sheets of economists. [1]

The data on how this has impacted public opinion is confusing and conflicting. For instance 84% of Germans fear the worst of the crisis is still to come, but 64% believe the euro will survive. Citizens in Germany are undoubtedly trapped by complexity and the intertwining of multiple crises – in banking, political trust, markets and democracy – which are not easy to disentangle and resolve. However there are certain identifiable aspects of a narrative of betrayal over Europe that has resulted in a sense of victimhood that stands in marked contrast to the international perception of Germany as the biggest beneficiary of the euro and the single market.

Firstly, there is a fundamental sense of betrayal over the loss of the Deutschmark and the adoption of the euro in exchange for German re-unification. This, however, fails to account for the Deutschmark's role as an anchor currency in the European Monetary System (EMS) and the burden this presented for Germany at the time, which was the economic argument in favour of the euro, rather than reducing it to a simple constraint of history.

Secondly, most Germans associate the euro with higher prices following its introduction in 2002. Although there is empirical evidence that what is now portrayed as hard-wired German fears of inflation started at this moment, Germans have strong memories of previous episodes of 'inflation trauma'(most notably in the hyperinflation of the 1920s) and a strong emotional bond with an independent central bank and price stability. This extreme unease with inflation has been at its most acute at moments of the crisis where the ECB – in the absence of policy solutions – has provided liquidity to save the euro-system, as recently again after the ECB Council decisions of 2nd August 2011.

Thirdly, in 2010 BILD-Zeitung began its campaign against the 'lazy Greeks', building upon the perception that industrious and hard-working Germans are being cheated out of their money by feckless Greeks.[2] Defenders of this argument praise Merkel for imposing austerity and tough economic reforms in the South, pointing out the huge amount of German financial support for Europe. This argument, however, does not fully account for the economic interdependencies within the single market, the symbiotic relations between creditor and debtor nations and the problems created by trade asymmetries. In short, Germany considers itself as the solution rather than part of the structural problem that led to the crisis. Germany has its own recent experiences with structural reform, and believes that any relief on interest rates for the troubled nations would allow them to wriggle out of their own overdue reform programmes. However this neglects the benign (low interest rate) conditions under which Germany was able to pursue reforms, plus the 'beggar-thy-neighbour' effects of Germany's export-driven economy, based on an industrial base which hardly can be copied by other member states. It also overlooks the extent to which Germany has benefited from the euro crisis itself: an estimated €80 billion in reduced interest rates on its bonds alone.

Fourthly, there has been no clear differentiation between cash and credit. Most Germans believe that hundreds of billions have already been spent. However, only some €55 billion have been spent in real terms on aid packages for Greece, the rest being credits and liabilities billion in the framework of the ESFS and ESM. Due to post-reunification spending on the former East Germany (around €100 billion over 20 years) that has achieved patchy results while building up debts for Western regions with their own infrastructure problems, many Germans also believe that such fiscal transfers are wasted money anyway.

Fifthly, the public debate in Germany has also largely dismissed any understanding of the differences between the crises in Greece, Spain, Italy and Ireland. This has led to the misdiagnosing of the situation in Spain (where regulatory imperfections led to a vast real estate bubble) and Ireland (which also had a real estate bubble as well as a banking crisis and had to rescue its banks) as simple overspending and jog trot like in Greece, for instance.

Lastly, German political and industrial elites have failed to make the case for how Germany's mainly export-driven economy benefits from the single market. Whereas CEOs of Germany's largest industries – though generally pro-euro – remained largely silent, German small and medium enterprises have tended to be hostile to the current euro-rescue measures.

These aspects have, at least partially, produced a distorted, anxious and ideologically rather narrow economic debate with Germany self-cast as the victim rather than the beneficiary of European integration. Germans have felt themselves forced to accept unpalatable solutions, rather than seeing themselves as the country that can resolve the crisis and shape the future of Europe.

Political Union

Although this narrative has dominated the debate for two years, there are signs that things are changing, not least in the softening of the stance of BILD-Zeitung. The recent warning about the costs of a euro breakup from the German foreign minister, Guido Westerwelle, can be seen as part of a perceptible effort by policy makers to strengthen the importance of the EU in the German debate, and move away from a narrow picture of Southern indebtedness. The increasingly historical and political contextualising of the debate has also moved towards a discussion of the future of the EU and its democratic system, and what in Germany is termed 'political union'.

'Political union' as a notion often remains vague and non-defined – much to the puzzlement of foreign observers of the discussion. But in its very essence, in a German mind-set, it means that any kind of fiscal federalism or debt mutualisation would erode sovereign budget rights of the Bundestag. But following the principle of "no taxation without representation", this can be solved with two very different outcomes. The first option is a permanent sort of veto-position of the Bundestag in the European system (*de facto* a reality in the past two years of the crisis). The second option is to develop a proper collective decision making system on the European level, in order to compensate for the erosion of budget sovereignty on the national level.

But this would require a different European Parliament; based on the principle on "one-man-one-vote" instead of a proportionally digressive system, as only a "general and equal election" is considered as being democratic in the eyes of the Constitutional Court in Karlsruhe. Another idea is to redesign the European Parliament and add a strong Eurozone component, either by creating a 'Eurobond-parliament' or in the form of a second chamber composed of national parliaments. [3] German lawyers for example have introduced the notion of a "*Parlamentsverbund*" into the debate, a network of national parliaments which would constitute a European second chamber. However, the most important thing to understand about the German debate about 'political union' is its essentially *parliamentary character*.

The key question that is emerging in Germany today is thus how European democracy can be organised around the euro, and which state-like elements the EU needs to adopt to do this job effectively. As the euro crisis forces the Eurozone closer towards *de facto* debt mutualisation – although this is not a German policy intention - the German debate is now focused on three thorny issues: 1. Such mutualisation is not covered by EU treaties in their existing state ('no bail out'); 2. Changes to these treaties would require a change of the *Grundgesetz* (Basic Law); and 3. That there is no valid parliamentary legitimacy at the European level for any kind of fiscal federalism.

There is a growing consensus that Maastricht was an error in the first place, combined with an increasing criticisms of Helmut Kohl "who got it wrong on the euro". [4] But the discussion then splits into those - the vast majority not only of German politicians, but also of its legal and economic establishment – who argue that pushing for more political integration would overstretch not only the political systems of the EU countries, but also the (supranational) ambitions of the people of Europe, calling the political feasibility of Maastricht into question; and those who argue for the completion of the Maastricht treaty through improved economic governance leading to some sort of fiscal federalism, and banking union, embedded in a 'political union'. [5]

This reflects both an evolution, but also an increasing polarization of the German euro debate in Germany. Hence, raising the concept of political union also carries the risk of raising the political and constitutional bar so high so as to effectively torpedo any euro rescue strategies and concrete and pragmatic next steps, such as the launch of a banking union. [6]

A minority now argues for more political and fiscal integration, called the 'more Europe' camp, and they are often referred to as 'Euro-romanticists' by those who argue that true federalism is unwanted by the people of Germany and Europe. The 'Euro-pragmatists' are not anti-EU or anti-euro, but set their rejection of debt mutualisation and Eurobonds as the red line for the future fiscal and political development of the EU.

The German exit strategy for the euro crisis has so far tallied with this latter view, restricting responses to non-permanent and conditional financial aid for the troubled Eurozone countries. Durably binding, irreversible and ultimately opaque fiscal federalism (i.e. Eurobonds, a redemption fund or a banking license) has been rejected: "The implicit transfer of taxpayer's money would be a violation of the principle of no taxation without representation." This is underpinned by the fear that agreeing to such would lead to the loss of pro-reform leverage, moral hazard, and the prospect of the German tax payer being 'cheated' by profligate countries. Temporary aid for other EU states through the EFSF/ ESM is (just) accepted by public opinion in Germany; durable and irreversible engagement into fiscal federalism is not. This is best expressed by Angela Merkel's statement before June's EU Council that Eurobonds would not come in her lifetime.

The constitutional dimension

In Germany the Constitutional Court (*Bundesverfassungsgericht*) at Karlsruhe is the gatekeeper of the 'more-Europe' argument (often described as 'constitutional nationalism' outside Germany). The court has to weight up the legality of European integration steps that affect German sovereignty at large. The authority of the Court in the German political system since 1949 stems from history, with the intention that law should always take precedence over the "undemocratic evolution of policy". For many this is precisely what is happening in the euro crisis.

Since 2010 and the first bailout measures for Greece, the various measures to deal with the crisis (especially the EFSF/ESM) have been seen as an attack on the 'no bail out' clause of the Maastricht treaty and thus on the independence of the ECB and its mission of price stability. The German reaction has been to defend these treaties rather than point out their inherent flaws (as monetary union requires some sort of fiscal entity). Measures that were widely promoted as economically necessary to save the euro (such as Eurobonds or a banking license) turned out to be politically and constitutionally infeasible in Germany. The decision by the June 2012 Council allowing the ESM to stabilise banks directly is seen as 'unconstitutional' in Germany, as it erodes German budget sovereignty by giving money to banks of other countries beyond German control.

Among the complaints lodged with the Court is that the ESM requires total German guarantees that are too high a sum for only one Bundestag to vote on, as they are a generational commitment that future generations cannot undo.

Since June 2012, over 20 complaints have been lodged in Karlsruhe, all arguing that the existing constitutional space for moves towards fiscal federalism is exhausted and that the ESM in its current form is already illegal. Whatever the Court decides in its ruling on 12th September 2012, the fact that it has taken so long for an interlocutory injunction (normally decided within a couple of days) reinforces the complicated constitutional questions that underpin the German debate. This has led to the argument that the euro crisis requires politicians to take the reins rather than lawyers, especially among those who suggest holding a referendum based on Article 146 GG (which provided for the abandoning of the preliminary Basic Law after reunification, but was never used in 1989 for fear of opening up a constitutional Pandora's Box). There seems to be no possible systemic shift towards 'more Europe' without systemic or institutional breakdown first that would allow the German constitution to accept any relevant European treaty change.

Until the question of what is *constitutionally allowed* or *politically desirable* is ultimately answered by Karlsruhe or by politics (eventually by a referendum), the German debate is therefore structurally stuck in a setting where (after exhausting legal grey areas and stretching public opinion to breaking point) the government *de facto* leaves rescue actions to the ECB, allowing the ECB to sneak towards monetisation of debt in the absence of a clear commitment and political solutions. In German eyes, the question of political union needs to be solved prior to debt mutualisation. Many believe that the lack of a European *demos* and lack of political will to abandon sovereignty (especially budget sovereignty) means it never can be, especially given the German emphasis on the parliamentary underpinning such a European political union would need to have.

Where next?

The central questions in the German euro discussion today are thus whether this vicious circle of a deficient European political system that does not allow further moves towards fiscal integration can be breached;

whether enough political will can be gathered to do so; and whether German public opinion, fed up with the euro crisis, will be ready and able to follow bold legal and political solutions towards political union, should policy makers finally put them on offer – or which incremental steps can be found instead.

With the next elections scheduled for September 2013, the German political landscape, as well as public opinion, seems split into a rough 30/70 division on decisive moves towards fiscal federalism, debt mutualisation and political union, with approx. 2/3 of Germans being against the latter.

Recent polls suggest that German public opinion remains reluctant to go for 'more Europe', with one suggesting that 51% would prefer Germany to leave the Eurozone. Overall, 70% of Germans are 'fed up' with the euro crisis, 77% are against 'more integration'(measured in initiatives such as the direct election of a European president), and 70% do not want a 'United States of Europe'. This suggests limited room for manoeuvre towards further integration, despite Guido Westerwelle setting up a working group on the future of European integration, which came up with far-reaching proposals.

The election campaign is likely to focus on the future of Europe and the German role in it and to become the first real "European election" in Germany. The political landscape is also split on the question of a referendum, a discussion which has gained a little more momentum with one of the potential candidates for the chancellery of the Social Democrats, Sigmar Gabriel, calling for a 'strategic change' in the German euro discussion in early August, based on prominent intellectual support for such a procedure by German philosopher, Jürgen Habermas. Some of those arguing against 'more Europe' (notably by the CSU) also call for a referendum as a blocking tactic.

Whereas the Liberals (FDP) and the Bavarian CSU rigorously exclude fiscal federalism and tend to lean against political union, the SPD and the Greens are more receptive to both, and the CDU is torn both ways. No party, however, is homogenous, and within the Liberals a new division seems to be opening between those who want to allow a banking union and a stronger role for the ECB and those who do not. This is important as the Liberals may play after the elections the role of kingmaker in the positioning of the German government on the 'yes' or 'no' to a banking union.

These divisions and debates suggest that Germany is beginning to have its first real, broad and open discussion about Europe and the fiscal, legal and political price it is ready to pay for it. The outcome of the 2013 elections will determine the stance of the new German government towards on the Euro and will thus be crucial for the rest of Europe.

It is uncertain whether a Eurosceptic party will form to take advantage of these sentiments. The Pirate Party has shown that there is space for a new force in German politics, and developments such as a possible Greek exit may provide the conditions for such a party to flourish (or Eurosceptic pressures within existing parties: within the CDU a new 'Berlin Circle' of conservative MPs who lobby against debt mutualisation has already formed).

Should there be a Greek exit or similar significant development it is difficult to predict who would be able to seize the political initiative in Germany. It may be that those arguing that an unwilling and incapable Greece had to leave the euro will initially gain the most political capital (Horst Seehofer has called for the sacrifice of a 'pawn'in order to set an example), but the impact of further developments that might follow this are too uncertain to allow firm predictions.

Conclusion

The difficult German debate about Europe over the last two years has led to the paradox of Germany being simultaneously the country at the helm of the future of Europe and also the country seemingly very reluctant to engage in bold steps of euro rescue. Now, however, there are signs that a genuine debate over Europe is emerging in Germany for the first time, allowing the German government to play an active role in shaping the future of the euro and the EU.

There remain many challenges, not least a sceptical public and considerable constitutional and legal hurdles, to a more constructive and pro-active solutions for the euro-crisis than the "muddling-through" approach that has characterized the German euro-crisis strategy in the last years. But somewhat surprisingly the German debate on ‘political union’ is forward looking and in many aspects ahead of similar debates across Europe.

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[1] Speech of former Chancellor Helmut Schmidt at the SPD-Party Congress in December 2011.

[2] Hugo Müller-Vogg, Ohne Fleiß kein Preis, BILD, 15. 08. 2012

[3] For both a) and b) see the speech of Wolfgang Schäuble, at the „Karlspreis“ award ceremony, 17.05.2012

[4] Gottfried Hahn, Ist Helmut Kohl schuld an der Euro-Krise?, Focus Magazin, 01.09.2012

[5] It is important to note that this is not a new German request: Since the 1990s Germany pushed for 'political union', see for example: Udo Margedant, Politische Union, Handlexikon der Europäischen Union, Mickel/Bergmann, OMNIA Verlag, 3. Edition, Stuttgart 2005, http://www.europarl.europa.eu/brussels/website/media/Lexikon/Pdf/Politische_Union.pdf

[6] For the German point of view see Hans Werner Sinn, Why Berlin Is Balking on a Bailout, The New York Times, 12.06.2012, http://www.nytimes.com/2012/06/13/opinion/germany-cant-fix-the-euro-crisis.html

http://www.faz.net/aktuell/wirtschaft/europas-schuldenkrise/griechenland/kommentar-zur-griechenland-rettung-seid-endlich-ehrlich-das-geld-ist-weg-11967098.html

Kommentar zur Griechenland-Rettung

Seid endlich ehrlich: Das Geld ist weg

21.11.2012 · Das Geld für Griechenland ist nur geliehen - so heißt es. Unsinn. Es ist Zeit, die Wahrheit zu sagen. Ein Kommentar.

Von Patrick Bernau

Manchmal sind Regierungsmitglieder einfach ein bisschen langsamer als der Rest der Welt. Norbert Blüm zum Beispiel sagte jahrelang, die Rente sei sicher - bis sein Nachfolger Walter Riester den Staatszuschuss zur privaten Rente einführte. Es hieß auch, in Afghanistan herrsche kein Krieg - bis Karl-Theodor zu Guttenberg es zum Tabubruch stilisierte, dass er das Wort in den Mund nahm. Und jetzt heißt es eben: Das Geld für Griechenland ist nur geliehen.

Es ist Zeit, diesen Satz zu vergessen. Der erste hat es schon getan. In diesen Tagen streiten die Finanzminister der EU und der Internationale Währungsfonds (IWF) darüber, wo das nächste Geld für Griechenland herkommen soll. Der IWF will nicht mehr mitzahlen, weil er Angst um sein Geld hat. Erst heute Morgen ist die nächste Verhandlungsrunde gescheitert.

Die Standards sind noch viel zu lasch

Dabei setzt der Internationale Währungsfonds schon lasche Standards an. Er will, dass die Schulden Griechenlands von derzeit fast 180 Prozent der Wirtschaftsleistung auf 120 Prozent gedrückt werden. Doch schon mit 120 Prozent lässt sich ein Haushalt kaum sanieren. Japan steckt seit Jahren in der Stagnation, Italien kommt von seinem Schuldenniveau kaum noch herunter.

Für Griechenland ist die Lage noch viel gefährlicher. Das zeigen Studien, die schon lange bekannt sind - zum Beispiel von den **Ökonomen Carmen Reinhart und Kenneth Rogoff. Jeder weiß inzwischen, dass sie festgestellt haben: Schuldenniveaus über 90 Prozent sind gefährlich**. Doch dieser Wert galt nur für Industrieländer, die zuverlässige Schuldner waren. Für alle anderen Länder beginnt die gefährliche Zone schon oberhalb von 60 Prozent. Nun ist Griechenland weder ein Industrieland noch als zuverlässiger Rückzahler bekannt, es hat die Hälfte der Jahre seit seiner Unabhängigkeit in der Insolvenz verbracht. Darum ist selbst die Annahme, Griechenland könne mit einem Schuldenniveau von 120 Prozent leben, bestenfalls sehr optimistisch - und schlimmstenfalls jetzt schon falsch.

Der Grund: das Haushaltsrecht

Doch auf tragfähige Schuldenniveaus kommt man nicht mehr, indem man die privaten Besitzer von Staatsanleihen enteignet. Gerade mal 70 Milliarden Euro stehen noch an Staatsanleihen aus, ein Gutteil davon liegt bei der Europäischen Zentralbank - private Gläubiger haben also nur noch wenig Geld in Griechenland. **Der große Rest der Gläubiger, die Kredite ohne Staatsanleihen gegeben haben, sind öffentliche Gläubiger: die Euro-Staaten und der IWF.**

Damit Griechenland auf ein wirklich tragfähiges Schuldenniveau kommt, kann es entweder seine Wirtschaftsleistung verdreifachen - oder die öffentlichen Schulden müssen abgeschrieben werden.

Doch Finanzminister Schäuble weigert sich. Aus formaljuristischen Gründen. Denn wenn Griechenland nicht dem Gesetz nach seine Schulden begleicht, verbiete es das Haushaltsrecht, ihm noch weiteres Geld zu leihen.

Die Idee von heute: Zinsen senken

Um den Buchstaben des Gesetzes Genüge zu tun, kommen Politiker jetzt auf die seltsamsten Ideen. Bundeskanzlerin Angela Merkel will die Zinsen auf Athens aktuelle Kredite senken, um Griechenland zu entlasten - ganz so, als wären die Kredite an Griechenland eine mündelsichere Geldanlage.

Dabei ist inzwischen ziemlich deutlich: Das Geld wird bestenfalls im juristischen Sinn zurückgezahlt, im wirtschaftlichen Sinn kommt das Geld nicht zurück.

Ob Griechenland trotzdem Geld bekommen soll, ist eine andere Diskussion. In der Haushaltsdebatte hat Angela **Merkel** erstmals deutlich gesagt: Sie hat sich politisch entschieden, Griechenland im Euro zu halten. Sie sollte weiterhin deutlich bleiben und den Geldfluss als das benennen, was er ist: ein Geschenk.

http://www.spiegel.de/international/europe/euro-zone-and-imf-fail-to-agree-on-path-forward-for-greek-debt-crisis-a-868463.html

SPIEGEL ONLINE

11/21/2012 12:43 PM

Default vs. Delay

Dangerous Euro Zone-IMF Split Persists over Greek Debt

Euro-zone finance ministers meeting in Brussels this week have been unable to reach an agreement with the International Monetary Fund on how to ensure that Greece's debt load comes down to manageable levels. Germany and other European countries continue to reject a new debt haircut. The standoff could become dangerous.

In recent years characterized by mammoth euro-zone bailouts and interminable European Union squabbling over the future of the bloc, German Finance Minister Wolfgang Schäuble has become a master at downplaying differences. On Wednesday morning, after talks aimed at finally overcoming an impasse on efforts to artificially resuscitate Greece collapsed, he once again put his talent on display.

"Because the questions are so complicated, we were unable to find closure," Schäuble said after a 12-hour negotiation marathon. He added that a number of options were discussed.

What he didn't say is that the core of the debate is quite simple -- and highlights the serious, and potentially dangerous, divide which has opened up between the euro-zone member states and the International Monetary Fund. Both sides are eager to see Greece's overall debt load shrink to a level that Athens can shoulder on its own. But whereas the IMF believes that the only sure way to get there is by ushering in another partial Greek default, euro-zone leaders, Germany first among them, would like to avoid such a scenario at all costs.

With Greece having recently been granted two extra years to reach its budget deficit reduction targets, the debate is now focusing on overall debt reduction. The IMF insists that Athens reduce its debt load from a current level of around 170 percent of gross domestic product (GDP) to a ratio of 120 percent by 2020. Based on measures in place today and current growth forecasts for the Greek economy -- combined with the two-year budget deficit delay -- that target is likely unreachable. As such, the IMF is insisting that Germany and other creditors forgive a portion of Greece's debt.

Such a move, however, is anathema to Berlin. Indeed, Chancellor Angela Merkel's Christian Democratic Union (CDU) party on Wednesday once again emphasized its opposition to such a debt haircut. Norbert Barthle, a senior CDU parliamentarian and the party's budgetary spokesman in the Bundestag, told German radio that he "very much hopes" that Germany can ward off a debt haircut. **A partial default, he said, "would be a fatal signal to Portugal, Ireland and perhaps even Spain." Such countries, he added, would immediately wonder why they should bother adopting difficult austerity and reform measures in the future.**

'Close to a Result'

According to a paper circulated at the euro-zone finance minister talks in Brussels on Tuesday night -- and which Reuters has seen -- measures currently in place would result in a reduction of Greek debt to 144 percent of GDP by 2020 and 133 percent by 2022.

"To bring the debt down further, one needs to take recourse to measures that would entail capital losses or budgetary implications for euro area member states," the document states, according to Reuters. Several possible measures have been discussed, including slashing the interest that Greece must pay on the emergency loans it has thus far received as well as creditor nations handing the profits they have earned on those loans back to Greece.

Euro Group head Jean Claude Juncker was at pains to project optimism after the collapse of the talks. "We are very close to a result," he told reporters on Wednesday morning. "We see no major stumbling block." IMF chief Christine Lagarde was more circumspect. "We have narrowed the positions," is all she would say.

Even if the IMF imposed debt-load target of 120 percent of GDP by 2020 is largely arbitrary, a break between the euro-zone and the IMF would likely be seriously damaging. IMF involvement in bailouts for Greece and other struggling euro-zone countries have lent the effort vital credibility and were Lagarde's organization to back out, it could seriously alarm investors as well as make the bailouts a lot more expensive for Europe.

Greek Frustration

Greece's euro-zone creditors, however, are skeptical of the IMF's debt haircut model. In contrast to the partial Greek default last spring, which primarily affected private investors, any new debt haircut would hit public money this time -- and would mark the first time that countries such as Germany actually lost money in the crisis. With Merkel facing a re-election battle next year, the appetite for such a move in Berlin is extremely limited.

The collapse of the talks, meanwhile, has left Athens in limbo yet again. The country badly needs the next payout of bailout money, but without an agreement on Greece's debt structure, the tranche cannot be disbursed. "Greece has done what it had to and what it had committed to doing," Greek Prime Minister Antonis Samaras said in a statement on Wednesday morning. "Our partners, along with the IMF, also must do what they have undertaken."

Despite his frustration, however, he will have to wait. Talks between the EU finance ministers and the IMF are first expected to resume on Monday.

cgh -- with wire reports

http://www.economist.com/news/europe/21566703-wave-strikes-and-demonstrations-shows-pain-across-region-workers-europe-protest

The Club Med and the euro

Workers of Europe, protest!

A wave of strikes and demonstrations shows the pain across the region

Nov 17th 2012 | *MADRID* | from the print edition

Letting everyone know our view of austerity

THE first hints of optimism are appearing in Europe's troubled Club Med countries. They are not to be found in unemployment or growth figures, but mostly in the mouths of ministers. "Spain is emerging from its crisis," declared Fatima Bañez, the labour minister, even as unemployment rose above 25%. In Greece ministers are pointing proudly to their progress towards a primary budget surplus. Everywhere economists are welcoming rising net exports and shrinking budget deficits (see briefing).

Yet ordinary voters and the unemployed are mostly unimpressed. On November 14th in Spain angry protesters took to the streets in the second general strike they have staged in less than a year of Mariano Rajoy's People's Party (PP) government. The strike, and a similar protest in neighbouring Portugal, brought most transport links, schools and many businesses to a halt. Police clashed with violent protesters in several Spanish cities, leading to 118 arrests and over 70 injuries across the country.

Millions of people turned out across Europe in the biggest day of union-organised protests since the crisis in the euro first broke out three years ago. Unions in Italy, Greece, France and Belgium joined the action, as workers rejected what they see as northern-imposed austerity. In Rome about 60 protesters were arrested, as civil servants and national transportation workers took to the streets. The strikes in Greece were the third to take place in the space of two months. In all, trade unions from 23 European countries joined in the day of action.

Yet the protests are unlikely to lead to any dramatic change in policy, if only because policymakers are still under huge pressure to reform. The latest European Commission forecasts make grim reading. For the euro area as a whole GDP is expected to shrink by 0.4% in 2012; it is forecast to grow by a mere 0.1% in 2013. Industrial production across the euro zone plunged by 2.5% in September compared with August, the largest fall since January 2009. The figures for the Club Med countries are especially bad. Greece's economy is forecast to shrink next year—the sixth fall in a row.

In Spain the commission predicts that the 2013 recession will be three times worse than the government's forecast, repeating this year's 1.4% shrinkage of GDP. The budget deficit could even rise again in 2014 unless supposedly "temporary" tax rises become permanent. Unemployment could surpass 26% next year. Mr Rajoy's government does not envisage even timid growth until 2014. In the meantime, high borrowing costs are squeezing both the public purse and private businesses.

Spaniards dislike false optimism, which their Socialist former prime minister, José Luis Rodríguez Zapatero, dispensed for many years. Voters evicted his party a year ago, in favour of the greater honesty and realism of Mr Rajoy. Yet now as many as 2.5m Spaniards have been jobless for over a year. Hence the backing for this week's protests.

It would help if Spain requested a soft euro-zone bail-out to trigger a bond-buying plan announced by the president of the European Central Bank (ECB), Mario Draghi. The announcement of Mr Draghi's plan has already lowered borrowing costs and kept markets open. Even if bond yields are now gradually drifting upwards again, Spain has already raised almost all of this year's mid- to long-term funding.

Mr Rajoy insists that he will ask for help from the ECB only when, and if, Spain needs it. That "when" now looks unlikely to be before next year.

The Spaniards also hope that the gloomier economic outlook, and perhaps the widespread protests and strikes, will produce a new dose of realism in the pro-austerity brigade. And on November 14th Olli Rehn, the European Union's economic commissioner, said that Spain's good record on reform meant that the country would be able to miss its deficit targets this year without triggering further austerity. The Swiss bank UBS puts Spain's gross financing needs next year at €250 billion. Mr Rajoy may have escaped a bail-out in 2012, but the markets could yet force his hand in 2013.

http://www.economist.com/news/briefing/21566639-europes-peripheral-economies-have-already-undergone-lot-restructuring-without-action

Adjustment in the euro zone

More and more and not enough

Europe's peripheral economies have already undergone a lot of restructuring. But without action by the rest of the euro zone, it risks being in vain

Nov 17th 2012 | *BARCELONA* | from the print edition

THE port of Barcelona, Spain's third-busiest, used to handle more imports than exports. This has now turned around, says Santiago Garcia-Milà, the port's deputy general manager; among many other things, ships are now for the first time taking cars off to China. The European Commission believes that this year exports of goods and services from Spain will be 22% greater, in real terms, than they were in 2009, as will exports from Portugal. Irish exports are expected to have grown by 15% over the same period, and if the rate is a little slower the growth matters even more; Irish exports are worth about 100% of GDP, whereas in Spain the share is about 30%.

Growth in exports, and with them strongly reduced current-account deficits, are one sign of change on Europe's periphery. Budget deficits have also been dropping. So have labour costs, increasing competitiveness. One measure of the scope of the efforts under way is the wave of industrial protest against them on November 14th, which included a general strike in both Spain and Portugal and smaller protests in Greece and Italy.

There remains much for these countries to do by way of "structural reform"—shake-ups of product and labour markets that will cause more pain and unrest. And little of the limited good news spreads as far as Greece, where exports are barely rising and which remains, in effect, insolvent. But the amount of both fiscal and economic progress in Spain, Ireland and Portugal, and to some extent Italy, is both underappreciated and heartening. The south is more than half way through the adjustment that is needed, says Julian Callow of Barclays, a bank, and still going in the right direction.

Even if such efforts are continued and strengthened, though, they cannot in themselves be enough. If the euro crisis is ever to be resolved, the divide that opened up in the first decade of the single currency between creditor countries in the northern core of the 17-strong euro zone and debtor nations in the south must be closed. That will require concerted action from the core countries of the north, as well.

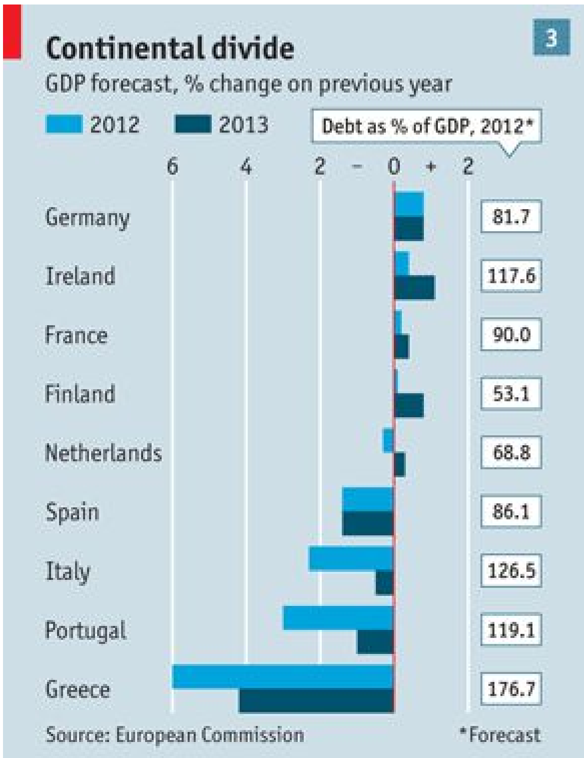
There has been some helpful action at the level of the euro zone as a whole. Tensions in financial markets have eased since Mario Draghi, head of the European Central Bank (ECB), said in July he would do "whatever it takes" to save the euro. The ensuing commitment by the ECB to buy short-term sovereign bonds of beleaguered countries without limit (under strict conditions) is a treatment for the symptoms of the crisis rather than its causes. But the relief it has brought by reducing bond yields is still welcome. The effect was most obvious in Spain, which was on the brink of requiring a bail-out for its public finances on top of the one earlier provided to its banks. But yields dropped elsewhere, too—in Portugal ten-year-bond yields fell from 11.1% to 8.8%, in Italy from 6.5% to 4.9%. In part as a result, Ireland has been tapping financial markets for the first time in two years.

This improvement may owe much to Mr Draghi, but it also reflects real change in the south, where yawning budget deficits have been cut back. A crucial measure is the primary budget balance (ie, before interest), which needs to swing into surplus in order to prevent debt from spiralling out of control. The size of the necessary surplus depends on growth rates, interest rates and the stock of debt. Since 2009 primary deficits have narrowed a lot in southern countries (see chart 1), and Italy's has returned to surplus.

Current-account deficits are also improving. The room for improvement, admittedly, was vast. The deficits in Greece and Portugal peaked in 2008 at 18% of GDP and 12.6% of GDP, respectively. Spain's peaked at 10% the year before. Deficits throughout the periphery have shrunk notably since then (see chart 2). Ireland, where the deficit peaked at 5.7% of GDP in 2008, has been running a current-account surplus since 2010. Portugal and even Greece have been running surpluses in recent months, though this may not last. The European Commission's projections show both countries running a deficit in 2013, with Greece's still worryingly high at 6.3%. Italy's deficit, meanwhile, shrank from 3.5% in 2010 to 1.2% this year.

Indicators of underlying competitiveness like unit labour costs have also turned in the right direction in most of the countries in trouble, though Italy's are still rising. Ireland has done the best, with a 14% improvement since 2008. And there has been progress on the structural reforms needed to allow southern economies to cope with the rigours of the single currency in the longer term. How much progress is hard to say, because the reforms cover such a wide range of regulations affecting businesses and workers. Mr Draghi said on November 8th that the peripheral economies had moved far faster in this area in the past year than they had before. But as Mr Callow notes, progress on structural reforms lags behind the improvement on external adjustment.

The missing ingredient



All the progress, though, needs to be judged in the harsh light of the periphery's lack of growth. Although the improvement in the south's balance of payments is welcome in as much as its exports are finding markets, much of it is due to the fact that demand for imports has fallen in its recession-stricken economies. As far as GDP and unemployment are concerned, the economic divide between the periphery and the core is continuing to widen (see chart 3). Next year the European Commission expects the euro area to grow by just 0.1% (following a decline of 0.4% this year). But whereas GDP in Germany will rise by 0.8%, the same as this year, it will fall in Spain by 1.4%, and in Portugal by 1% (after a 3% fall in 2012). Italy's GDP will decline by 0.5%, after a 2.3% decline in 2012. The Greek collapse will continue for a sixth year, with output shrinking by 4.2%. The divergence will be just as marked for unemployment, predicted to be 5.6% in Germany compared with 26.6% in Spain.

This lack of growth is the heart of the problem: the south is being subjected to self-defeating austerity, which drives economies down, makes it harder to close deficits and raises debt. The bigger the debt burden—which exceeds 100% of GDP in Greece, Italy, Ireland and Portugal—the more important the gap between interest rates and growth becomes, and that gap widens when economies are shrinking. In such circumstances the growth in the stock of debt can accelerate even if deficits are shrinking. The main reason why the Greek debt burden is expected to get worse despite serious deficit reduction is that its economy has continued to nosedive.

Further structural reform could help provide the needed growth. One way to see the scope for improvement is in the World Bank's "ease of doing business" measurement, derived from factors such as the time it takes to start a business, register a property and enforce contracts. Figures released this October show that Greece, Portugal and Spain have all significantly narrowed the gap that divides them from the best European countries in which to do business by reforming things like construction permits and procedures for insolvency. But though the gap has been narrowed, it is still present. And in the case of Italy it has narrowed very little.

But the rest of the euro zone also has a role to play in delivering the growth that the south needs. The country with the most to offer is Germany. Although its surplus with the euro area has fallen a lot, it still amounted to 2.3% of GDP in 2011. Germany resists structural reforms in its underdeveloped services sector that would generate more domestic demand in the longer term. And its citizens remain hostile to the idea of inflating away some part of their competitiveness in order to make things easier on their cousins in the south.

A narrowing fiscal and economic divide between north and south is a necessary condition for ending the euro crisis, but it is not a sufficient one. The crisis has led to a deep gulf between financial conditions in the north and south. In the north, businesses and households can borrow at cheap rates. In the south, they have to pay much more, and often banks just don't want to lend at all. Despite emergency measures by the ECB—including the provision of €1 trillion ($1.3 trillion) three-year central-bank funding to European banks last winter, most of which went to the periphery—this divide persists.

This reflects the third dimension of the euro crisis: that it involves not just collapsing public finances and huge trade imbalances but fragile financial systems, which are susceptible to investor panics. Weak government finances left banks with lots of dodgy government debt; in Ireland and Spain, which experienced epic housing boom-and-busts, self-inflicted wounds by the banks weakened the governments. The pernicious link between banks and governments stymies progress.

Putting this right requires a return of confidence on the part of private investors outside the south, which would ease financing pressures. But although yields have fallen, private investors are still leery of investing in the south. Its banks remain heavily reliant on ECB funding. The "Target2" imbalances between central banks—liabilities chalked up in the south by, for example, the Bank of Spain and claims accumulated in the north, especially by the German Bundesbank—have recently fallen a little but remain extraordinarily high, which indicates the extent to which central banks have been financing capital flight from the south.

Say not the struggle naught availeth

Breaking the vicious circle between weak banks and weak sovereigns requires a big leap forward in economic integration: a euro-area banking union (see article). Although European leaders recognised the necessity of this reform over the summer, they have since been backtracking on making it a swift and meaningful reality. In particular, hopes of introducing euro-wide deposit insurance are dwindling.

That is characteristic of the way the euro crisis has been mishandled. Whenever the ECB has countered market fears, its reaction has taken the pressure off European politicians and they have dragged their feet. Spain is a prime example. Mariano Rajoy continues to hesitate over seeking a bail-out which could trigger the ECB's bond-buying policy, even though that may mean that he eventually has to ask for one from a position of weakness rather than strength. Despite all the adjustments, the euro area remains vulnerable to economic setbacks and political upsets, especially in the south (and above all in Greece). And the progress has been bought at a price. How much more will electorates be prepared to suffer without seeing more convincing and rewarding results?

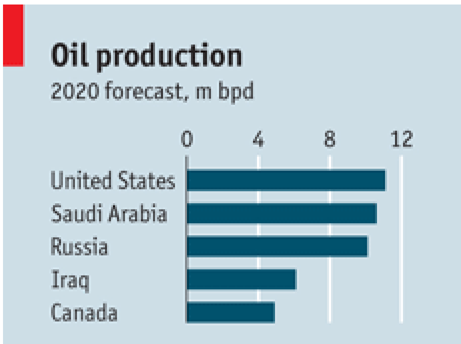
http://www.economist.com/news/leaders/21566663-good-thingbut-it-would-be-better-if-energy-was-priced-correctly-united-states-americas

Oil and gas

America's oil bonanza

A good thing—but it would be better if energy was priced correctly in the United States

Nov 17th 2012 | from the print edition



THE shale-gas revolution in America has been as sudden and startling as a supertanker performing a handbrake turn. A country that once fretted about its dependence on Middle Eastern fossil fuels is now on the verge of self-sufficiency in natural gas. And the news keeps getting better. This week the International Energy Agency (IEA) predicted that the United States would become the world's largest oil producer by 2020, outstripping Saudi Arabia and Russia (see article).

Why has this happened? Price signals work. Oil has been costly for more than a decade. This has spurred prospectors to look harder for unconventional fuels: oil and gas that lie deep under the sea, buried in shale beds or stuck in Canada's vast oil sands (see article). They have developed whizzy technology to extract these hydrocarbons, with such success that North America now has a gas glut. Prices have plummeted, prompting shale-gas frackers to drill for pricier shale oil instead. According to the IEA, America could become self-sufficient in energy by 2035. Bolder analysts say sooner. Canada has immense potential, too. Besides the oil sands, a recent report suggests that the province of Alberta alone may have shale gas and oil reserves to rival America's.

The North American hydrocarbon bonanza offers big benefits, but also some pitfalls. The economic pluses are obvious: cheap gas yields cheap electricity, which boosts American industry, especially power-hungry sectors such as aluminium, steel and glass. Cheap gas also buoys petrochemicals firms, which use it to make useful stuff such as plastic. Also, America consumes some 19m barrels of oil a day. Imported oil costs $109 a barrel. Not having to pay Saudi Arabia for this is a boon.

The environmental scorecard is more mixed. Burning fossil fuels adds to greenhouse-gas emissions, which cook the planet. But the dash for gas has reduced American emissions, since gas is cleaner than coal. By contrast, in Europe, which does have a carbon-trading system but never developed shale gas, emissions have risen over the past three years. Europeans are shuttering nuclear-power plants and backsliding to filthy coal.

How to use a windfall wisely

It will be years before renewable energy is cheap and reliable enough to replace fossil fuels entirely. For now, hydrocarbons and the warming they bring with them are necessary evils. Rather than trying to distort their supply, the American government's job should be to let the oil and gas flow, where it is safe; but at the same time force those who use it to pay the full costs of that fuel—including those to the environment and the planet—and seek to spread the development of alternatives.

America has got the first part of that right, especially when it comes to encouraging innovation. Its landowners own the minerals below their turf, giving them a huge incentive to allow exploration (unlike Europe's). There are a few barmy rules, such as a ban on crude-oil exports, but it can still sell the refined version. Barack Obama should approve the proposed Keystone XL pipeline, which would carry Canadian oil to the Gulf of Mexico. Greens fear leakages, but overland pipes are far less risky than, say, shifting oil in trucks, and the pipe's owners would have to pay for any clean-up.

Where American energy policy is far less sensible is when it comes to the price reflecting the true cost. Tiny petrol taxes take no account of the damaging effects of pollution. This newspaper has long argued for a carbon tax to make dirty energy more expensive and thus curb demand. If that happened, some of the new oil might not be worth extracting: Canada's heavy oil, for instance, emits about 6% more carbon dioxide than normal oil, which in turn can be 30% dirtier than gas. The biggest bonanza from all this new energy would be if the users paid the real cost of consuming oil and gas.

http://www.lefigaro.fr/conjoncture/2012/11/20/20002-20121120ARTFIG00746-moody-s-sanctionne-l-incapacite-de-la-france-a-se-reformer-depuis-vingt-ans.php

Moody's sanctionne l'absence de réformes structurelles

Par Marie Visot Mis à jour le 20/11/2012 à 21:54 | publié le 20/11/2012 à 20:07 Réactions (45)

Pierre Moscovici, le ministre de l'Économie, a tenté de dédramatiser la dégradation de la note française. Crédits photo : FRANCOIS GUILLOT/AFP

Bercy et la droite se renvoient la responsabilité de la dégradation de la note de l'Hexagone.

«La note de la France n'a perdu qu'un cran ; elle demeure l'un des pays les mieux notés.» Hier, le ministre de l'Économie, Pierre Moscovici, a tenté de dédramatiser la mauvaise nouvelle tombée dans la nuit: la privation par Moody's du Aaa de l'Hexagone - ce sésame qui permet à un pays de financer sa dette sur les marchés aux taux d'intérêt les plus bas. Standard & Poor's ayant déjà sévi en janvier, l'agence Fitch reste la seule à accorder la meilleure note possible à la France. Le verdict de Moody's repose sur un cocktail de faiblesses: une prévision de croissance 2013 du gouvernement (0,8 %) trop optimiste et qui pourrait donc remettre en cause l'objectif d'un déficit public de 3 % l'an prochain, un marché du travail, des biens et des services trop rigide, un système bancaire encore fragile ou encore un contexte européen qui reste instable.

L'agence relève «un fort engagement en faveur des réformes structurelles et de la consolidation budgétaire», mais estime que les mesures en faveur des entreprises annoncées début novembre«ne devraient pas, seules, avoir l'ampleur suffisante pour rétablir la compétitivité». Laquelle se dégrade, selon elle, depuis «deux décennies». Un mauvais point pour le nouvel exécutif… Et certainement une surprise pour Bercy, le ministre de l'Économie, Pierre Moscovici, ayant laissé entendre hier que, lors de sa rencontre avec Moody's à l'occasion des assemblées du FMI mi-octobre à Tokyo, il avait eu la «sensation» que les agences de notation laisseraient plus de temps au gouvernement de Jean-Marc Ayrault pour mettre en place sa politique.

L'Allemagne a néanmoins tenu à montrer sa confiance à Paris: le ministre des Finances, Wolfgang Schäuble, a indiqué que la France avait certes reçu «un petit avertissement», mais que sa notation est «encore très stable», en dépit de sa dégradation.

«Errements du passé»

Le nouveau président de l'UMP, Jean-François Copé, au contraire, a immédiatement réagi, estimant que «jamais nous n'avions assisté à un tel discrédit en seulement six mois» et pronostiquant que «le gouvernement ne manquera pas de tenter de se défausser sur Nicolas Sarkozy». De fait, Pierre Moscovici a souligné que la décision reflétait «l'insuffisance des gouvernements précédents à redresser les comptes publics et la compétitivité de notre économie». «Cette dégradation sanctionne les errements du passé», a insisté l'entourage du chef de l'État.

Pierre Moscovici a pudiquement reconnu que la perte du Aaa est «un encouragement à poursuivre les réformes». Et de citer la négociation sur le marché du travail en cours - qui est censée aboutir d'ici à la fin de l'année - ou encore la loi bancaire en préparation. «Nous devons tenir le cap» de la politique suivie, a insisté hier François Hollande, devant l'Association des maires de France. «Ce cap de l'emploi et de la croissance est ambitieux», souligne Pierre Moscovici et le gouvernement n'a pas l'intention de «freiner le rythme». «Mais cela prend du temps pour inverser une tendance», a reconnu le ministre des Finances.

En attendant, «il n'y a aucune raison objective pour que la qualité de notre signature en soit entachée», a-t-il dit, précisant que la France emprunte à ses plus bas taux historiques. Hier, le taux à 10 ans s'est légèrement tendu…

International Herald Tribune | THE GLOBAL EDITION OF THE NEW YORK TIMES
IHT Rendezvous

November 20, 2012, 7:49 am

French Downgrade Focuses on Failure to Compete

By HARVEY MORRIS

MADRID - The French can always blame their latest bit of financial bad news on the Curse of The Economist.

An overnight announcement that France had lost its prized triple-A debt rating came after The Economist, the prestigious Britain-based weekly, ran a cover story describing the country as a time bomb at the heart of Europe.

French sensibilities, including those of the government, were outraged by a report that described France as potentially the biggest danger to the European single currency.

It also described President François Hollande as half-hearted about introducing much-needed reforms in view of the gravity of France's economic problems.

The magazine ominously reminded the French that the last time it targeted a European country for its failure to reform - Italy in mid-2011 - the government of Silvio Berlusconi was out by the end of the year.

In the latest official response to The Economist's report, Najat Vallaud-Belkacem, the government spokesperson, wrote on Monday that France was "credible" and was being twice as ambitious as the euro zone average in terms of cutting its deficit.

And more efforts would be made on cutting expenditure to improve France's competitiveness, she wrote in an op-ed rebuttal.

Hey presto! The very same day, Moody's Investors Service, one of the big three ratings agencies, downgraded France's sovereign debt to reflect in part "its gradual, sustained loss of competitiveness and the long-standing rigidities of its labor, goods and service markets."

Those were factors that figured in The Economist's assessment, dismissed by some in France as the latest in a line of "French-bashing" covers from the pro-free market weekly.

Agnès Poirier, a French journalist writing in The Guardian, said the magazine refused to understand French "exceptionalism" and the central role of the state, and therefore saw a French collapse as inevitable.

"The irony, of course, is that the Economist has to admit that France's exception is what makes it attractive in the first place," she wrote.

The response was not all negative. Gaspard Koenig, a French politician presently working in London, thanked The Economist for doing the job of the French media.

" 'Time bomb' is a rational conclusion based on the facts," he wrote at Atlantico in an article that ridiculed the French press for its overreaction to The Economist report.

Standard & Poor's downgraded France's credit rating in January, along with Italy and seven other European countries. And Europe's debt as a whole has undergone waves of downgrading, which has set off a backlash against the ratings agencies.

Nowhere have the countercharges been tougher than in France, where some allege an Anglo-Saxon conspiracy orchestrated on Wall Street and in The City to damage France - by the same ratings agencies that failed to warn against the securitization of subprime mortgages and over-leveraged banks that set off the global economic crisis.

The left-leaning New Statesman, another British weekly, acknowledged the new Moody's downgrade of France was bad news for Mr. Hollande.

However, it added, "it is worth remembering the standard disclaimers about credit rating agencies: they aren't very good at rating credit, know less than any competent macroeconomist about sovereign debt, and basically just don't know what they're talking about.

"So France needn't be too scared just yet."

http://www.atlantico.fr/decryptage/merci-economist-faire-travail-que-medias-francais-ne-font-pas-gaspard-koenig-547173.html

Merci à The Economist de faire le travail que les médias français ne font pas

Le journal The Economist parle de la France comme d'une "bombe à retardement au coeur de l'Europe" et provoque les critiques des politiques et médias français. Et si le journal était en fait plus patriote que les Français eux-mêmes en sonnant l'alarme avant qu'il ne soit définitivement trop tard ?

Publié le 16 novembre 2012

Les polémiques folles que provoquent les Unes de *The Economist* montrent amplement, par contraste, l'inanité consensuelle de la presse française, encore illustrée récemment par la honteuse succession de questions fadasses et convenues à la conférence de presse du président. Merci à *The Economist* de ne pas s'attarder sur les polémiques Twittweiler, marinière, pain au chocolat et tutti quanti, dont nos médias raffolent car elles leur évitent de travailler. **Merci à *The Economist* de se coltiner les rapports du FMI, les chiffres de production industrielle et les reportages au fin fond de la Corrèze.** Merci à *The Economist* de faire un vrai travail de journaliste.

Car l'hebdo de Saint James' Street est tout sauf le « Charlie Hebdo de la City » (Arnaud Montebourg) ou la « Pravda du capital » (Laurent Joffrin) que nos finauds Parisiens aiment à dépeindre. Rappelons que ce journal, un des plus anciens et des plus réputés au monde, fut fondé en 1843 pour « prendre part dans le vif combat entre l'intelligence, qui nous fait avancer, et l'ignorance crasse et craintive qui nous retarde ». **Sa ligne éditoriale, maintenue sans sourciller depuis près de deux siècles, est de défendre le libre-échange et les libertés individuelles, ce qui l'a conduit à soutenir – et à critiquer - aussi bien des politiques de gauche que de droite.** Pour éviter toute gloriole stylistique, les papiers ne sont pas signés. Et pour assurer une véritable objectivité factuelle, *The Economist* s'est doté de sa propre structure d'analyse et de production de données, *The Economist Intelligence Unit*. **Que tous les journalistes français qui osent donner des leçons d'objectivité à *The Economist* aujourd'hui aillent d'abord y faire un stage.**

Décrire aujourd'hui la France comme une « bombe à retardement » est une conclusion rationnelle fondée sur l'observation des faits. Ôtons les œillères idéologiques de l'Etat-nounou. Cessons de fantasmer sur ces taux au cours anormalement bas, comme l'a fait encore aujourd'hui cette grande experte des marchés financiers, Najat Vallaud-Belkacem, alors que tous les professionnels prévoient un ajustement brutal et sanglant. Qui peut nier que la France n'a pas été capable de présenter un budget en équilibre depuis 1981, que ses dépenses publiques sont devenues les plus élevées d'Europe (57%), que 25% des jeunes sont au chômage, qu'aucune jeune entreprise n'a rejoint le CAC 40 depuis 1987, que le poids de la fonction publique est étouffant (22% de la population active !), et que les PMEs, étranglées par des régulations absurdes, ne parviennent pas à grossir ? **Qui peut contester que la France ne cesse de dégringoler dans les classements internationaux, ceux de la Banque Mondiale comme du Forum Economique Mondial ?** Qui peut encore se fier à une classe politique formée dans l'adoration de l'Etat centralisé pour libérer le désir d'entreprendre ?

Comme pour mieux confirmer l'analyse de *The Economist*, Pierre Moscovici lui a répondu, dans les colonnes du *Financial Times*, qu'il fallait réformer « à la française » : autrement dit, à coups de compromis intenables et d'usines à gaz législatives. Quant à Laurence Parisot, elle a brandi le rapport Gallois (en prétendant que le rapport de *The Economist* n'en avait pas tenu compte, ce qui montre soit qu'elle ne l'a pas lu, soit qu'elle ne sait pas lire). **Comme si le rapport Gallois, avec ses mesurettes en trompe-l'œil, faisait le poids en comparaison des réformes de structure engagées partout ailleurs en Europe.** Si la France n'opère pas le big bang de son Etat, alors c'est l'Etat qui va lui sauter à la figure.

http://www.guardian.co.uk/commentisfree/2012/nov/18/france-timebomb-hollande-economist-warnings

France as Europe's next timebomb? Not with Hollande in charge

The Economist's recent warnings about my country ignore the opportunity President Hollande has to effect reform

Agnès Poirier guardian.co.uk, Sunday 18 November 2012 18.30 GMT

'François Hollande has more power than any other European head of state to implement his policies.' Photograph: Pool/Reuters

This week's issue of the Economist is not lamenting the decline of the French bakery. With a bunch of baguettes strapped to dynamite on its cover, the British magazine is in fact warning that France may be Europe's next timebomb. And to add a little touch of drama, the magazine's editorial reminds readers that the last time it pointed the finger at a European country for its bad accounting (Italy, in June 2011), its premier, Silvio Berlusconi, was shown the door just a few months later. Be very afraid, François Hollande: the Economist is watching you.

The financial markets bible, alongside the Financial Times, has never warmed to, let alone understood, **France's exceptions.** *Colbertisme*, *dirigisme*, the central role of the state are, for those market-friendly publications, anathema. France is bound to collapse at some point, it is inevitable. And yet, despite the Little Ultra-Liberal Guidebook's rules, France is still standing. So, on occasion, the Economist has to remind its readers that it's only a question of time and that France's exception will soon come to an end.

The irony, of course, is that the Economist has to admit that France's exception is what makes it attractive in the first place:

France's position as the world's leading tourist destination is no accident, and not just because of the scenery or the food. To many people it stands for a dream, encompassing the revolutionary ideals of liberty, equality and fraternity and epitomising the taming of uncontrolled markets, the promotion of culture, literature and intellectual debate, even the very notion of civilisation. Such riches can easily lead to an unattractive arrogance, but they explain much of the country's enduring appeal. They are also among the reasons why France and the French are so resistant to change: why would you want to take the reformer's knife to a country that represents the peak of civilisation?

Needless to say, the French government didn't take the Economist's warning kindly. Even the head of French entrepreneurs, Laurence Parisot, disagreed with the publication's main thesis. She said: "There is one thing the Economist is right about, that France is Europe's heart." And added: "By the way, they should sack their cover designer. Can somebody tell the British that baguettes are not arranged in bunches like asparagus?" Asked his opinion about the Economist's dossier during a visit to Berlin, French prime minister Jean-Marc Ayrault said: "France is not impressed."

However, beyond the constant tit-for-tat and eternal incomprehension of our French idiosyncrasies, there is one thing the Economist is right about. Hollande has more power than any other European head of state to implement his policies. With a majority in both chambers, and a majority in French regional councils, he can, should he choose to do so, achieve what no other president in the last 40 years has dared or even tried to do. Hollande, the first French president to be a graduate of France's first business school, who understands economics better than most, has in effect the opportunity to reform France.

When he asked Louis Gallois, the former head of the European Aeronautic Defence and Space Company and a personality admired both by the right and the left, to make recommendations about how to restore France's competitiveness, Hollande knew what he was doing. Gallois' recommendations have proved very controversial for the left of the left, as he advises a deep structural reform of the labour market laws. If Hollande is politically brave enough to implement Gallois' recommendations, he may well succeed in taking France into the 21st century, and yet retain France's singularity.

http://www.faz.net/aktuell/wirtschaft/europas-schuldenkrise/designierter-wirtschaftsweiser-volker-wieland-ein-schuldenschnitt-allein-hilft-wenig-11966580.html

Designierter Wirtschaftsweiser Volker Wieland „Ein Schuldenschnitt allein hilft wenig“

20.11.2012 · Der neue „Wirtschaftsweise“ Volker Wieland sieht in Griechenland keine ausreichenden Reformbemühungen. Einen zweiten Schuldenerlass für Athen dürfe es daher nicht geben. Zudem warnt er im Interview die EZB vor einer Zwickmühle.

© Felix Seuffert Neu im Rat: Der Geldtheoretiker und Makroökonom Volker Wieland ist vom Bundeswirtschaftsministerium als neues Mitglied des Sachverständigenrats nominiert worden. Der 46 Jahre alte Ökonom soll dort Wolfgang Franz ersetzen, der im Februar 2013 ausscheidet

Der griechische Schuldenberg wächst rasant trotz Konsolidierungsbemühungen. Jetzt beträgt die Schuldenquote schon 175 Prozent, im nächsten Jahr geht sie auf 190 Prozent zu. Kann es Griechenland schaffen, seine Schulden zu tragen und jemals alle Kredite zurückzuzahlen?

Das wird aus gutem Grund von vielen bezweifelt. Ein breiter politischer Konsens für eine konsequente Konsolidierungs- und Reformpolitik fehlt in Griechenland, und die Regierungsmehrheit ist äußerst knapp. Im Vergleich zu anderen Krisenländern liegt es trotz massiver Unterstützung durch Kredite und die Überwachung durch die IWF-EZB-EU-Troika weit zurück.

Braucht Griechenland doch einen zweiten Schuldenschnitt - gegen den sich Bundesfinanzminister Schäuble wehrt?

Ein Schuldenschnitt allein hilft wenig, wenn nicht konsequent reformiert und dauerhaft konsolidiert wird. Es gab ja bereits einen Schuldenschnitt, bei dem zwar hauptsächlich private Gläubiger Verzicht übten, aber auch die Abwicklungsgesellschaften in Staatsbesitz auf Anleihen aus dem Bestand der HRE und WestLB einen Schnitt akzeptieren mussten, was also auch die Steuerzahler trifft.

Der Bundesbank-Präsident hat vorgeschlagen, einen Schuldenschnitt nur dann in Aussicht zu stellen, wenn Griechenland entschiedener reformiert. Wäre das eine gute Idee?

In Griechenland muss sich noch viel bewegen. Solange die Steuerverwaltung ausstehende Steuern vielfach nicht eintreiben kann und solange auch unter den Bürgern des Landes kein Vertrauen in griechische Anleihen besteht, ist ausländischen Steuerzahlern schwer zu erklären, warum gerade sie stärker beteiligt werden sollen.

Wie weit sehen sie die notwendigen Reformen und Haushaltsanpassungen in den anderen Krisenländern gediehen?

Entscheidend ist der politische Konsens. In Irland und Portugal besteht er. Die Regierungen haben sowohl Sparprogramme als auch wachstumsfördernde Reformen auf den Weg gebracht. Ebenso geht es in Spanien voran. Positiv ist auch, dass die Defizite im Außenhandel sinken.

Und Italien?

Das Land hat viele sehr leistungsfähige Unternehmen, muss aber seinen Arbeitsmarkt reformieren, um mehr Wachstum zu realisieren - ein Prozess, wie ihn auch Deutschland durchgestanden hat. Der hohe Schuldenstand macht Italien verletzlich. Zudem ist die politische Unsicherheit sehr groß, solange es nicht klar ist, ob die reformorientierte Politik nach der anstehenden Wahl fortgesetzt wird.

Steht auch Frankreich auf der Kippe? Soeben hat eine zweite Ratingagentur die französische Bonitätsnote herabgestuft.

Die Herabstufung des Ratings für französische Staatsanleihen ist ein Warnsignal, und zwar keines, das überraschend kam. Frankreich sollte Wettbewerb und Wachstum stärken. Höhere Einkommensteuern und zusätzliches Reglement am Arbeitsmarkt schaden da nur.

Die Rezession im Euroraum scheint sich erst mal weiter zu verschärfen. Keynesianische Ökonomen sagen, das liegt vor allem am scharfen Sparkurs. Stimmt das?

Idealerweise spart man dort, wo es einen geringen Effekt auf die gesamtwirtschaftliche Nachfrage hat. In einer idealen Welt streckt man die Maßnahmen über einen längeren Zeitraum und wächst eher aus den Schulden heraus. Sind sie aber einmal so hoch wie jetzt, sind schnelle Einschnitte notwendig, um potentielle Investoren zu überzeugen.

Was ist besser: Steuern erhöhen oder Ausgaben kürzen?

Höhere Einkommensteuern sorgen nicht nur kurz-, sondern auch längerfristig für weniger Wachstum. Besser ist es, die Ausgaben zu senken, insbesondere Transfers. Wenn eine Regierung zu scharfes Sparen vermeiden will, dann sollte sie dafür umso mehr Reformbereitschaft zeigen, etwa beim Liberalisieren des Arbeitsmarktes. Wer Reformen vorzieht, kann die Sparbemühungen etwas strecken.

In Deutschland gibt es viel Skepsis bezüglich der Politik der Europäischen Zentralbank. Die Bundesbank stemmt sich gegen die Ankündigung der EZB, unter Bedingungen unbegrenzt Staatsanleihen von Krisenländern zu kaufen. Was sind die Risiken dabei?

Die EZB bewegt sich damit sehr weit auf das Gebiet der Fiskalpolitik vor. Natürlich ist es für Staaten in Bedrängnis, die Anleihen nicht mehr am Markt plazieren können, immer eine Versuchung, sich die Kredite von der Zentralbank zu holen. Dagegen hat man die Unabhängigkeit der Zentralbanken gesetzt, die sich außerdem primär um Preisstabilität kümmern müssen. Der Clou beim neuen Ankaufprogramm ist die Bedingung eines ESM-Programms. Das stelle eine Barriere gegen eine hemmungslose Nutzung des Programms dar, meint die EZB. Aber sie ordnet sich damit letztlich politischen Bedingungen unter, die von den Regierungen gesetzt werden. Am Beispiel Griechenlands zeigt sich, dass es schwierig ist, weitere Kredite zu stoppen, auch wenn die Bedingungen nicht erfüllt sind. Auch die EZB wird vielleicht mal vor einer solchen Situation stehen.

Das Gespräch führte **Philip Plickert**.

Quelle: F.A.Z.

http://www.nytimes.com/2012/11/20/opinion/hamass-illegitimacy.html?ref=global-home

Editorial November 19, 2012

Hamas's Illegitimacy

The death of more than 100 Palestinians and the wounding of hundreds of others in the six-day-old Gaza war were not enough for the top leader of Hamas, Khaled Meshal. Speaking in Cairo on Monday, he taunted Israel to begin a ground invasion, saying "if you wanted to launch it, you would have done it." He ignored the fact that an invasion would kill many more Palestinians and further devastate the Gaza Strip, which, in August, before the current fighting, the United Nations predicted would be unlivable by 2020.

Hamas, which took control of Gaza in 2007 and is backed by Iran, is so consumed with hatred for Israel that it has repeatedly resorted to violence, no matter the cost to its own people. Gaza militants have fired between 750 to 800 rockets into Israel this year before Israel assassinated one of its senior leaders last week and began its artillery and air campaigns. That approach will never get Palestinians the independent state most yearn for, but it is all Hamas has to offer.

Israel also has a responsibility for the current crisis, which threatens to complicate and divert attention from international attempts to deal with the threat of Iran's nuclear program and the Syrian civil war. Israel has a right to defend itself, although it is doing so at the cost of further marginalizing the moderate Palestinian Authority that helps administer the West Bank and it risks further isolating Israel diplomatically.

Israel has a vastly more capable military than Hamas, and its air campaign has resulted in a lopsided casualty count: three Israelis have been killed. The Israelis claim to have done considerable damage to Hamas rocket targets, which should make a ground invasion of Gaza less likely. But military action is no long-term answer. If Prime Minister Benjamin Netanyahu of Israel had pursued serious negotiations on a two-state solution with the Palestinian president, Mahmoud Abbas, the Palestinians could have hope in a different future and Hamas's nihilistic vision would have far less appeal. Mr. Abbas shares responsibility for this failure.

It is time for Arab leaders to speak the truth and stop ignoring the culpability of Hamas. Arab League ministers who met in Cairo on Saturday condemned only Israeli "aggression." On Monday, Prime Minister Recep Tayyip Erdogan of Turkey called Israel a "terrorist state." Even President Mohamed Morsi of Egypt who, at American urging, is trying to broker a cease-fire between Israel and Hamas, blamed only Israel for the violence.

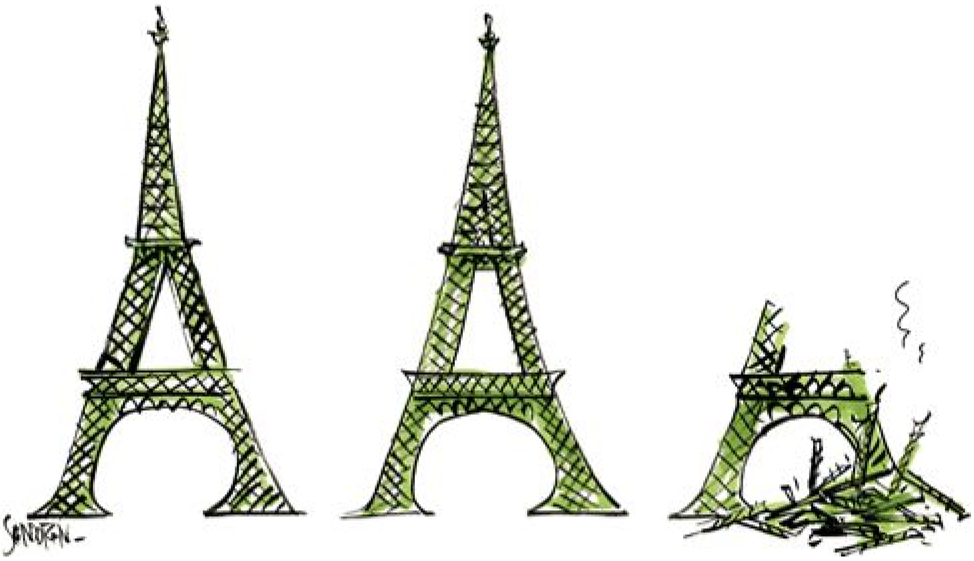
A cease-fire and diplomacy by Egypt, Turkey and Qatar would be valuable but not sufficient. President Obama is right to invest more attention in Asia, but he also needs to assert more of a leadership role in the Israeli-Palestinian conflict. The goal must be a permanent peace not another stopgap measure. As former Secretary of State James Baker III and Samuel Berger, a former national security adviser, wrote in a book, "Pathways to Peace," the unresolved conflict "is a catalyst for radicalism across the Arab world at a time when its heart and soul are in play."

http://www.presseurop.eu/en/content/article/3055911-france-s-elites-are-denial

Debt crisis

France’s elites are in denial

20 November 2012

Die Welt Berlin 

Sondron

Accused of sticking its head in the sand over the crisis, France has been downgraded by Moody's and become the biggest problem child in Europe. To the political elite in Paris, though, all that doesn’t matter, writes an author from Berlin in the conservative Welt.

Marko Martin

It is rather bizarre: experts on the economy and scientists researching human mentality have been shaking their heads over the countries of southern Europe hit by the crisis for years now, just to share with us their bad news – and each snippet is more troubling than the last. And all the while, the talk doesn’t stop about “core Europe”, kept running by the “Franco-German motor”, which must not be allowed to “splutter”.

Meanwhile, in view of France's steadily declining competitiveness and its horrendous national debt (currently at ninety percent of its GDP), a question comes up: are we dealing here with a naive blindness all round – or with the perhaps final Pyrrhic victory in the French art of throwing smoke?

Why did no one look any closer? One explanation, implicit and given unintentionally, was a statement two weeks ago by the former EADS CEO Louis Gallois, who gave a damming verdict on the French economy and demanded radical reforms. A “confidence shock” is needed, said the man who had made a career for himself out of lucrative government contracts. The tremolo to his voice, afflicted by crisis, was once again half-Bolshevik and half gold-plated, perfectly matching the working range of the declared enemy of globalisation, Arnaud Montebourg, who marches under the banner “Minister for the Restoration of Production.”

Inbred Paris circles

“The style is the man,” Madame de Stael once opined. French society still seems trapped in gab mode. The questions about the state of Nicolas Sarkozy’s marriage were of greater interest during his five years in office than his open disdain for the democratic separation of powers and the scandalous exploitation of the intelligence services to monitor the remaining cohort of critical journalists. (Print and online media in France receive millions of dollars in subsidies – which come with the to-be-expected taboos on what to report on.)

Even in the inbred Paris circles, reporters must observe clear boundaries. Otherwise, it might have been pointed out that, despite mass unemployment, Monsieur Montebourg was most anxious straight off to manhandle his attractive woman into the executive chair of the legendary music magazine “Les Inrocks”. And one could have reminded the acting foreign minister Laurent Fabius of his past as Mitterrand’s Prime Minister, when the state blood transfusion institute was accused of knowingly allowing three thousand French haemophiliacs to be given HIV-contaminated blood; while Fabius and his ministers were acquitted by a judiciary that was probably only partially independent politically, countless victims are now dead.

One certainly need not be an “Anglo-Saxon” (an even greater insult in today’s France than the former “Boche” flung against the Germans) harbouring an intense mistrust of the state to find this denial of past and present highly dangerous and to find a key cause of the crisis in the continuity of the same old incompetent elites.

Most authoritarian of all Western European societies

True alternatives are rare. Unlike in Germany, there are no Christian or Social Democrats [to fall out over the embracing of the market economy], leaving the political left and right free to agree above all in their statism, in keeping private middle-class initiatives small-scale, and in a protectionism that, crossing political divides, shamelessly uses the anti-capitalist rhetoric of “egalité toujours.” Meanwhile, France’s exports are plummeting, youth unemployment is exploding, Muslim Jew-hatred is running rampant in the suburbs, and the social security systems are facing collapse, threatening the state with bankruptcy.

But where are the French economic essayists settling scores with the quasi-socialist character of their country? Where are the political scientists, continually returning to Montesquieu’s separation of powers, who would at some point put the web of inter-institutional relationships under the magnifying glass?

Ironically, the country that saw the greatest turbulence during the student unrest of 1968 has remained the most authoritarian of all Western European societies. The vast majority of young people still dream of becoming a "fonctionnaire" – of a sure-fire job in the loved-hated bureaucracy. Meanwhile, the cinemas continue to show finely tooled sentimental trips down memory lane, in the spirit of the blockbuster “Amélie”: the dreamt-of return to the cloistered garden of the Gallic idyll, where the Beaujolais tastes wonderful forever and even the baguette is subsidised...

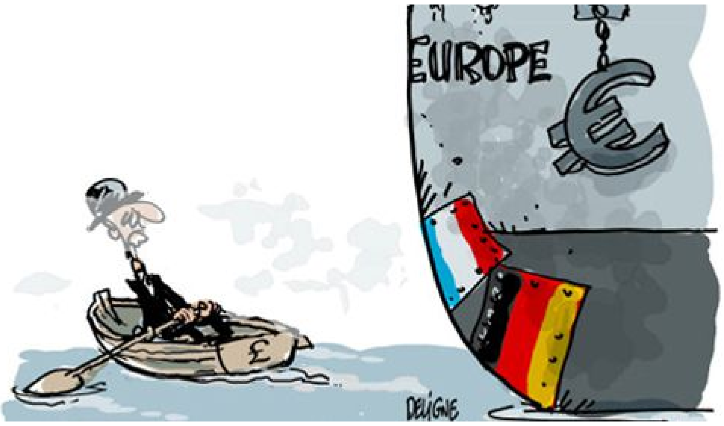
http://www.presseurop.eu/en/content/article/3050181-eu-exit-would-lead-less-sovereignty-not-more

United Kingdom

EU exit would lead to less sovereignty, not more

20 November 2012

The Observer London



Deligne / Caglecartoons.com

As a poll shows 56% of Britons in favour of a straight EU exit, the British Sunday newspaper argues that the consequences of such a withdrawal would be dire.

Britain appears to be almost inexorably set on a course that will see it cease to be a full member of the European Union. Today's Observer opinion poll, suggesting that, offered a choice in a straight in/out referendum, a two-to-one majority of Britons would be inclined to leave is but another indicator of the strength of anti-European feeling. It is now almost certain that both of Britain's principal political parties will feel obliged to offer such a referendum in their manifestos for the next parliament, triggered by the Tories' anxiety to defend their flank against Ukip and Labour's need to match them to appease the wave of Euroscepticism. Unless Europe suddenly becomes more attractive or pro-Europeans can make a stronger argument, the result of any referendum could look inevitable.

The only qualification to that assumption might come from either party in government being able to offer the referendum on a renegotiated relationship with more powers ceded to Britain. On that thin reed, dependent on the goodwill of European states who no longer trust Britain's interest in building Europe, hangs our European future. We will either be a semi-detached member – or not a member at all.

The likelihood of a complete exit will be brought one step nearer by this week's European summit, where 27 states are trying to agree the EU's budget for the next seven years. Agricultural spending used to account for the lion's share of European spending; now, the bulk of expenditure goes towards the infrastructure of poorer members, on research and development, and on the implementation of pan-European initiatives such as the proposed banking union. A freeze in spending, given the acute needs of southern and eastern Europe, is unlikely; probably the other 26 will settle on a small, real-terms increase.

Britain will not concur. David Cameron, locked between his own increasingly confident Tory backbench Eurosceptics and an opportunistic Labour party that has put tactical advantage before principle, knows that he cannot get such a deal through Parliament, nor can it survive the hysterical scrutiny of the overwhelmingly centre-right Eurosceptic media. He will be compelled to veto the deal, entrenching the distrust between Britain and its European neighbours, and making any concessions even to win a referendum on a semi-detached relationship much less likely.

http://www.economist.com/news/europe/21566649-rest-european-union-wants-britain-inbut-not-any-cost-europes-british-problem

Charlemagne

Europe's British problem

The rest of the European Union wants Britain in—but not at any cost

Nov 17th 2012 | from the print edition

ARE the British leaving the European Union? Hardly a conversation passes in Brussels without somebody asking. Britain's friends are alarmed, some rivals gleeful. For the EU as a whole, the prospect of "Brixit" compounds the uncertainty of the euro crisis. Angela Merkel, the German chancellor, says she cannot imagine the EU without Britain. But Michel Rocard, a former French prime minister, speaks for many when he says that "the United Kingdom, which has blocked all progress on European integration since 1972, has distanced itself from the euro zone. Let's take advantage of that."

In many ways, the British have only ever been half-in; they are not part of the euro or the Schengen passport-free travel zone. The prime minister, David Cameron, says that he wants to stay in the EU and its single market (and one day to renegotiate Britain's membership). But some moves give the impression that Britain is on its way out. Its plan to opt out of big chunks of justice and police co-operation is one example. Another is Mr Cameron's threat to veto the EU's next budget unless it is frozen. Most worrying is the drumroll of Eurosceptic MPs seeking an in-or-out referendum. A parliamentary vote calling for the EU budget to be cut suggests that Mr Cameron does not control his Tory backbenchers, and that the Labour Party is ready to exploit anti-EU sentiment.

The rest of the union is in flux, not least because the euro crisis is forcing the pace of political integration. This creates a dangerous cocktail of resentment and unpredictability, and raises the prospect that Britain could find itself outside the EU by error if not by design. Two summits—one on November 22nd to decide the budget, and another on December 13th to forge a euro-zone banking union—may determine whether the EU moves towards a new kind of "variable geometry", or Britain drifts away altogether.

A benign scenario would see EU leaders do a budget deal, clearing the air for one on banking union. This is the first real test of how to balance the integration of the 17 euro "ins" with the interests of the ten "outs", particularly the integrity of the single market of 27. Countries want to place the euro-zone's banks under a single supervisor (the European Central Bank) while reassuring Britain that it will not be outvoted in the European Banking Authority, which sets common rules.

Meanwhile, Mr Cameron's "balance of competences" review will assess the distribution of power between London and Brussels, reporting in 2014. Around that time the European Commission should be setting out its vision of a new treaty, which may include some powers to be repatriated. Mr Cameron, if re-elected, could negotiate the "new settlement" that he seeks and put it to a referendum, perhaps in 2015 or 2016.

British ministers say they want a calm and "grown-up" conversation about the future of the EU. But they may not have that luxury. Much can go wrong, starting with the negotiation over the budget for 2014-20. Britain is the most hawkish country, demanding a real-terms freeze based on spending in 2011. But under pressure from MPs for a cut, Mr Cameron's opening bid may now be his maximum concession. A prolonged stalemate could see the EU budget being rolled over yearly. This would cost Britain more than it wants, and irritate its partners: multi-year projects in eastern Europe would be disrupted, and other net contributors would lose the temporary rebates they now enjoy.

Recrimination over a failed budget could poison the banking talks. An isolated Britain might be tempted to veto the single supervisor. Eurocrats are ready then to push for "enhanced co-operation" that allows nine or more members to seek deeper integration. This could be explosive. Forget sober reflection: Mr Cameron could even be forced to concede an immediate referendum. And other bad scenarios abound. Perhaps the euro will collapse, bringing down the EU with it. Or perhaps the euro will survive, and use its combined weight to push the British around.

Hold your nerve

Still it is hard to see the British, awkward as they are, completely outside the EU. The Germans don't want to be left alone with the protectionist French; the weakened French, on balance, want the British to counterbalance the mighty Germans; smaller countries don't want to be crushed in a Franco-German vice. The Americans want their British ally to stay in. And what would be left of the EU's foreign-policy ambitions without the global diplomatic network and armed forces of the British?

All this may stop events from spinning out of control. Even so, Britain may find European leaders less willing to accommodate its demands in any renegotiation than it thinks. Many see Britain as trying to protect the City, which is hardly popular. The French say repatriating social and employment laws would give Britain an unfair advantage. Even friends in northern liberal countries think Britain goes too far in trying to create an *à la carte* membership. "You cannot just pick the raisins out of the bun," says one.

Several factors are reducing Britain's bargaining power. First is the accumulated resentment of past battles. Second, Germany may feel less necessity to keep the British in, now that their troops no longer defend its borders. Third, unlike Britain, most of the outs want to stick close to the euro zone. Fourth, a looming Brixit makes even friendly countries less willing to line up with the Brits. Most important, most leaders think resolving the euro crisis must take priority over British demands—and they resent Britain's attempts to exploit the euro crisis for its own ends.

A year ago most EU countries sidestepped Mr Cameron's misconceived veto of the "fiscal compact", a treaty to tighten budget discipline. They will do so again if they have to. This may not matter to those wanting Britain out of the EU, but those who still want the best deal for Britain need to keep cool heads.

http://www.economist.com/node/21559964

German economists

In a momentous tiff

Germany's economists bicker publicly about the euro crisis

Aug 4th 2012 | *BERLIN* | from the print edition

NOT since 1986 have Germany's elites been so spellbound by an argument among academics. At that time, in the so-called *Historikerstreit*, the country's historians bickered through the opinion pages about the meaning of the Holocaust. This time it is German economists who are arguing, in a new *Ökonomenstreit*, as the press has now dubbed it. Their subject is the euro crisis.

The tiff began in July, when Walter Krämer, an economic statistician in Dortmund, drafted an open letter calling the euro policy of Chancellor Angela Merkel "wrong" and warning of a slide into a "banking union" and a "socialisation" of bad debts by European banks. Evidently written for a public (as opposed to an academic) audience, it suggested that the rescue packages agreed by Europe's leaders would mainly help Wall Street and hurt everyone else. The letter became an instant sensation in part because Mr Krämer got Hans-Werner Sinn, perhaps the closest Germany has to a celebrity economist, to sign. Within weeks, more than 200 other economists had signed as well.

Many of those who did not were aghast, calling the letter's tone a shocking descent into the populist gutter. Worried that the public might get the impression of an anti-rescue consensus among economists where none exists, Frank Heinemann, a professor in Berlin, and Gerhard Illing in Munich drafted a public answer. It argued that a "banking union" was in fact critical to saving the euro, although it left the details vague. Mr Heinemann also got more than 200 economists, including some quasi-celebrities, to sign on.

Germany's five economic wise men have also published their opinions. One of them, Peter Bofinger from Würzburg, publicly fretted about the sobriety missing from the debate. So the wise men have tried to elevate the tone by analysing the euro crisis as three interlocking problems: first, the national debts of member countries, next the bad debts of banks, and last the broader macroeconomic gloom.

The wise men have also fleshed out the details of a euro-area redemption fund that they had proposed earlier. They suggest putting national debts in excess of 60% of each country's GDP into a pot that all euro countries would collectively guarantee, and that could be retired over 25 years. This would indeed socialise debt, but only partially and temporarily.

A think-tank in New York, the Institute for New Economic Thinking (INET), has now chimed in with a "master plan". Financed in part by George Soros, INET has formed its own council of European economists, which includes two of Germany's five wise men, Mr Bofinger and Lars Feld from Freiburg. Its plan warns that Europe is "stumbling toward a catastrophe" and demands both a redemption fund and a banking union.

At this point, almost all German economists seem to have taken a side—and some, confusingly, more than one. The initiators are doing their best to ratchet the intensity down and the value up. Mr Krämer has published a more muted version of his letter. Mr Heinemann hopes the debate may lead to a consensus. And Mr Bofinger is talking of a *dénouement*. The important thing, he says, is to focus the public on two alternative end states. As he sees it, these are a Europe that is united against one that has broken apart.

http://www.economist.com/blogs/charlemagne/2012/11/frances-economy

France's economy

Moody bleus

Nov 20th 2012, 10:28 by S.P. | PARIS

IN SOME ways, the decision late on November 19th by Moody's, a credit-ratings agency, to strip France of its Triple A sovereign credit-rating was not unexpected. The agency put France on negative outlook back in February. Only a month later Standard & Poor's, another ratings agency, downgraded France from the top rating.

For François Hollande (pictured above), the Socialist president elected six months ago, the timing is awkward. Over the past two weeks his government has begun for the first time to recognise the scale of the country's economic difficulties and to start to do the right thing to deal with them. In particular, in response to increasing alarm about France's loss of competitiveness, it recently announced €20 billion ($26 billion) of tax breaks for companies to offset the country's heavy payroll charges.

So why has Moody's identified growing risks in France right now? In part, it says, these are linked to troubles in the rest of the euro zone. It notes the country's high exposure, particularly through its banks, to the battered peripheral economies. It also points to the growing obligations on France as a result of collective European decisions to support such nearly bankrupt countries.

Yet a fair chunk of its analysis touches home-grown problems that France cannot blame on others. Moody's identifies two other reasons for its downgrade. First, deteriorating long-run economic prospects due to "the country's persistent structural economic challenges": "rigidities in labour and services markets" (high taxes and social contributions; high employment protection legislation), "low levels of innovation", and a "gradual but sustained loss of competitiveness and the gradual erosion of its export-oriented industrial base".

Second, Moody's points to **growing uncertainty about the fiscal outlook**. It describes as "overly optimistic" the government's forecast of GDP growth of 0.8% in 2013 and 2% from 2014. Mounting unemployment, and new tax increases, are likely to dampen consumption further. It anticipates fiscal slippage, and the likely need for more consolidation measures to meet budget-deficit targets.

Moody's recognises that France has a large and diversified economy, which is why, even after the downgrade, its bonds remain "extremely highly rated". And it acknowledges the current government's "strong commitment" to structural reform and fiscal consolidation, which it says might mitigate some of the risks it identifies. **Yet** the ratings agency is also clear that it does not consider the recent government announcements intended to lower labour costs to be enough, noting that "those measures alone are unlikely to be sufficiently far-reaching to restore competitiveness".

Pierre Moscovici, the finance minister, this morning played down the decision, stressing that French bonds remain a "safe asset" thanks to a big and liquid market, and blaming the previous government, under Nicolas Sarkozy, for the underlying difficulties. The government also pointed out that bond yields are currently at historic lows. **Only four euro-zone countries, Germany, Finland, Luxembourg and the Netherlands, still retain a Triple A credit rating from all three ratings agencies.**

Yet the government is clearly rattled by outside criticism right now. This is partly due to the sensitivities of an unpopular executive. **But it is also because of internal differences about how far the government should go in loosening the labour market and reducing public spending, in order to improve competitiveness.**

By the standards of many left-wing parties in Europe, the French government's recent decision to reduce taxes on companies to ease labour costs, for instance, was unremarkable. But the **French Socialists** have long denied that labour costs were a problem and campaigned on a promise to stop factory closures and end austerity in Europe. **They have spent most of their time in office so far increasing taxes.**

In this context, the recently announced tax breaks represent what Mr Moscovici calls a "Copernican revolution". He now argues that the Moody's downgrade is a spur to further reform. **But the left of the party is unamused**. Mr Hollande himself has refused to talk of a "U-turn". If the reformists intend to go further, they will have to deal hostility within their own ranks, not to mention a deeply baffled electorate.

http://www.eurotopics.net/en/home/presseschau/aktuell.html

Eurotopics Press review | 20/11/2012

Moody's downgrades France

Standard & Poor's withdrew the country's top credit rating back in January. (© AP/dapd)

Rating agency Moody's has stripped France of its top AAA credit rating, exlaining that the country's long-term economic growth outlook remained negative and that the announced reforms did not go far enough. Commentators nonetheless believe President Hollande is on the right path and blame the country's predicament on the failoure of previous governments to implement reforms.

Le Monde - France

Downgrade Sarkozy's fault

Former president Nicolas Sarkozy is to blame for the downgrading of France by the rating agency Moody's, financial advisor Georges Ugeux writes in his blog Démystifier la finance for the left-liberal daily Le Monde: "Is France a danger for the Eurozone? The question is justified. To a certain extent this concern does our country honour, testifying as it does to the central role it plays. ... But this honour goes hand in hand with responsibilities that France has not always lived up to. The lack of seriousness with which Nicolas Sarkozy's government handled France's public finances compromised our country's credibility. And that's why we lost our AAA rating. ... In the Eurozone's sovereign debt crisis, France has promoted austerity yet practiced irresponsibility. Now this relationship must be reversed. France must, and can, put its public finances back in order, and the efforts of the current government have exactly this objective in mind." (20/11/2012)

» full article (external link, French)
More from the press review on the subject » Fiscal Policy, » Economic Policy, » Financial Markets, » France
All available articles from » Georges Ugeux

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Il Sole 24 Ore - Italy

Hollande is on the right path

France's downgrading is a major setback for François Hollande, who however has at least tried to introduce reforms, albeit cautiously, the liberal-conservative Il Sole 24 Ore points out: "The government of the Socialist President François Hollande has tried to find the right path. ... It has passed 30 billion euros in budget discharges for 2013 to avoid exceeding the three-percent deficit limit. Two-thirds of the these consist of new taxes, half of which are to be paid by businesses. But government spending and the tax burden still stand at 57 percent and 46 percent of GDP, respectively, a record figure in Europe. Finally Hollande and his government grasped the seriousness of the situation and two weeks ago announced 20 billion euros in tax relief for companies. However it can't be taken for granted that this will be enough to boost the economy. ... For Moody's, the uncertainty may be too great. But we can't say for sure yet that the downgrading will influence the markets." (20/11/2012)

» more information (external link, Italian)
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NRC Handelsblad - Netherlands

French closing their eyes to problems

Rating agency Moody's explained on Monday that France had lost competitiveness owing among other things to its inflexible labour market and lacking investment in innovation. Finance Minister Pierre Muscovici stressed that the downgrading by Moody's does not put his country's fundamental economic data in question. France is closing its eyes to bitter reality, the liberal daily NRC Handelsblad notes: "It simply doesn't get through to the French public that France could become the Eurozone's biggest problem country. ... This is precisely the problem: there is a lack of understanding that reforms really are necessary. Hollande is grappling with the consequences of decades of omitted restructuring measures. France has been running a budget deficit since the 1980s, unemployment has been almost constantly above 10 percent and the country's competitiveness has shrunk. Hollande is attempting to tackle these problems. ... We can expect, and even demand, that he succeeds." (20/11/2012)

» more information (external link, Dutch)
More from the press review on the subject » Fiscal Policy, » Economic Policy, » Labour market, » Economy, » France

http://www.lemonde.fr/economie/article/2012/11/20/plan-de-competitivite-un-petit-pas-pour-faire-baisser-le-cout-du-travail_1793056_3234.html

Plan de compétitivité : un petit pas pour faire baisser le coût du travail

Le Monde.fr | 20.11.2012 à 09h14 • Mis à jour le 20.11.2012 à 13h32 Par Denis Cosnard

Les analystes de l'agence Moody's, qui ont dégradé, lundi 19 novembre, la note de la dette de la France – de Aaa, la meilleure possible, à Aa1, la deuxième évaluation sur une grille de vingt – ne sont pas seuls à avoir des doutes sur l'impact réel du *"pacte de compétitivité "* proposé par l'Etat. Le crédit d'impôt de 20 milliards d'euros pour les entreprises, la mesure phare de ce plan, *"va dans le bon sens"* mais reste un petit pas, estiment également les experts de COE-Rexecode, un institut proche du patronat.

"C'est la première mesure significative de baisse des charges depuis des années", a certes déclaré son président Michel Didier, lundi 19 novembre. Cependant, le crédit d'impôt ne devrait alléger le coût du travail en France que de 2,7 %, selon les calculs de COE-Rexecode.

"MESURE DE SOUTIEN À L'EMPLOI"

Dans l'industrie, le secteur le plus exposé à la concurrence internationale et le plus fragilisé par la perte de compétitivité de la France, la baisse ne serait même que de 2,4 %.

Globalement, l'industrie toucherait environ 20 % des 20 milliards d'euros annoncés. D'autres domaines tels que la construction, le commerce ou les services en profiteraient relativement plus.

"Cela prouve bien que ce dispositif est tout autant une mesure de soutien à l'emploi qu'à la compétitivité des entreprises", commente Michel Didier.

Un double objectif assumé par l'exécutif. D'autant qu'il aurait sans doute été très difficile de justifier juridiquement vis-à-vis de Bruxelles des mesures ciblées uniquement sur l'industrie ou sur les entreprises exportatrices.

http://www.lefigaro.fr/conjoncture/2012/11/19/20002-20121119ARTFIG00702-grece-la-facture-s-alourdit-pour-la-zone-euro.php

Grèce : la facture s'alourdit pour la zone euro

Par Alexandrine Bouilhet Publié le 19/11/2012 à 19:59 Réactions (37)

Malgré toutes les aides, la dette de la Grèce s'élève toujours à 287 milliards d'euros, soit 150 % du PIB. Crédits photo : Kostas Tsironis/Bloomberg

L'Eurogroupe se réunit ce mardi à Bruxelles pour décider du versement d'une nouvelle aide de 44 milliards d'euros à la Grèce. Le débat sur un troisième plan d'aide est ouvert. Le FMI critique la stratégie européenne.

La Grèce est au menu d'une réunion exceptionnelle de l'Eurogroupe, ce mardi, à Bruxelles. Ce rendez-vous s'annonce tendu sur la forme comme sur le fond, car la facture ne cesse de s'alourdir pour la zone euro. Les ministres des Finances doivent décider de débloquer, d'un coup, trois tranches d'aide en faveur de la Grèce pour un montant total de 44 milliards d'euros. Ils doivent également s'entendre sur le mode de financement d'un «trou» de 31,5 milliards d'euros apparu après la décision prise mi-novembre d'allonger de deux ans le délai de réduction de déficits publics grecs. Il s'agit d'un troisième plan d'aide qui ne dit pas encore son nom.

Au-delà de ces chiffres qui donnent le tournis, c'est toute la stratégie d'aide à Athènes qui est remise en question. La Grèce, dont l'économie ne se redresse pas, serait-elle devenue un puits sans fond dans lequel la zone euro risque de sombrer?

N'est-il pas temps de songer à employer les grands moyens, c'est-à-dire d'effacer une bonne partie de la dette grecque, aujourd'hui détenue à 70 % par les États de la zone euro, le FMI et la BCE?

L'enjeu de la discussion est si lourd que la directrice du Fonds monétaire international (FMI), Christine Lagarde, a abrégé sa tournée en Asie pour être présente à Bruxelles. Après avoir été clément, le FMI durcit le ton. Le Fonds critique la vision à court terme des Européens, qui règlent la facture grecque à coups de chèques signés dans la douleur, après des psychodrames au Bundestag. Christine Lagarde exige une stratégie de long terme, non pas pour la beauté du geste, mais parce que les statuts du Fonds lui interdisent de continuer à prêter à un pays dont la dette n'est pas soutenable.

Année électorale

Malgré deux plans d'aide de 230 milliards d'euros, 107 milliards d'euros d'effacement de dette privée, un délai de deux ans accordé pour réduire les déficits, la dette de la Grèce s'élève toujours à 287 milliards d'euros, soit 150 % du PIB. Si l'on ajoute à cette somme une nouvelle tranche de prêts de 44 milliards d'euros, l'endettement grec atteindra, en fin d'année 2012, 170 % du PIB, soit le même niveau qu'avant l'effacement de dette privée du printemps 2012.

Les projections du ministère des Finances à l'occasion du vote du budget 2013 ne sont guère plus optimistes: la dette grecque dépassera 190 % du PIB en 2014. L'objectif du FMI de réduire la dette à 120 % du PIB en 2020 - le niveau actuel de l'Italie - semble d'ores et déjà hors d'atteinte.

Le débat entre la zone euro et le FMI sur la «soutenabilité» de la dette occulte un sujet très douloureux pour les gouvernements: l'effacement de la dette grecque détenue par les gouvernements. Angela Merkel ne veut pas en entendre parler en cette année électorale. La France de François Hollande n'est guère plus loquace. Un nouveau geste en faveur de la Grèce se traduira mathématiquement par un alourdissement de sa propre dette, déjà sous pression à plus de 90 % du PIB. La BCE et le FMI ont pour leur part annoncé qu'ils ne pourraient pas accepter de renoncer à leurs remboursements sur la Grèce. C'est donc aux gouvernements de la zone euro qu'il reviendra de payer la facture du prochain plan d'aide à la Grèce. Lequel peut prendre des formes plus discrètes d'allongement de durée des prêts sur 50 ans ou de réduction de taux d'intérêt. L'Europe peut aussi décider de prêter à la Grèce des fonds pour qu'elle rachète sa propre dette à prix cassé. Les formules ne manquent pas, c'est la décision politique qui fait défaut.

http://www.lefigaro.fr/conjoncture/2012/11/20/20002-20121120ARTFIG00457-il-reste-douze-pays-notes-aaa-dans-le-monde.php

Il reste douze pays notés AAA dans le monde

Par Marine Rabreau, Service infographie du Figaro Mis à jour le 20/11/2012 à 12:40 | publié le 20/11/2012 à 11:12

INFOGRAPHIE - Dans la zone euro, seuls quatre pays ont la meilleure note attribuée par les trois principales agences de notations : Moody's, Fitch et Standard & Poor's.

Depuis janvier 2012, le monde compte douze pays notés AAA. Il y a les géants mondiaux qui détiennent dans leur sous sols des réserves de matières premières, le **Canada** et l'**Australie**; les pays où la fiscalité est avantageuse, comme **Singapour,** la **Suisse** ou encore le **Luxembourg**; les pays nordiques dont l'économie est indéniablement solide: **Suède**, **Norvège**, **Finlande**, les **Pays-Bas** et le **Danemark**; Le **Royaume-Uni** reste dans le club très fermé des pays notés AAA, pourtant les finances publiques y sont très dégradées. Mais outre-Manche, la politique monétaire indépendante permet une flexibilité qui manque, selon les agences de notation, aux pays de la zone euro vérouillés par la BCE (Banque centrale européenne) et son rôle plus restreint.

Reste l'Allemagne, qui est, avec la Finlande, le pays de la zone euro noté AAA qui est le moins menacé d'une prochaine dégradation: Moody's est la seule agence qui menace le pays d'un probable abaissement de note avec une perspective négative. Les deux autres -Luxembourg et Pays-Bas- sont menacés par deux des trois agences.

La perte du triple A américain, un tournant

Dès début 2010 et le début de la crise de la dette en Grèce, les notations des agences ont rythmé l'actualité économique et bousculé les marchés financiers. À chaque dégradation, le débat sur leur crédibilité et leur rôle dans la crise éconmique mondiale refaisait surface. Il y a un an et demi, S&P retirait aux États-Unis, première puissance économique du monde, leur triple A. Ce qui avait provoqué une panique sur les marchés, finalement très brève: les taux longs américains sont restés très bas, et le dollar (valeur refuge par excellence) n'a pas flambé. Les investisseurs ont continué de faire confiance à la capacité des États-Unis à maintenir une croissance économique soutenue tout en prenant le chemin de l'assainissement des comptes publics.

Depuis, les annonces de dégradation de note souveraine ne provoquent plus de choc. Les marchés tempèrent leurs réactions: ils anticipent mieux les changements de note, puisque les agences sont désormais tenues d'informer de manière plus claire et transparente.

http://www.spiegel.de/international/world/commentators-say-germany-can-t-refuse-turkish-request-for-patriots-a-868239.html

SPIEGEL ONLINE

11/20/2012 01:28 PM

The World from Berlin

Turkish Call for Help Puts Germany in a Tough Spot

Turkey wants its NATO partners to provide Patriot missiles after mortar rounds were fired onto its territory from Syria. The request has triggered a political row in Germany, with the opposition concerned about being dragged into the Syrian conflict. Media commentators say Germany must help.

Military deployments are always a political minefield in Germany, for obvious and good reasons, given its history. So it's no surprise that Turkey's request for Patriot missiles from its NATO partners to help secure its 900-kilometer border with Syria led to a political row in Berlin, where opposition politicians have warned that a deployment could end up pushing Germany into the Syrian civil war.

"The deployment of hundreds of German soldiers with Patriot missiles would put us onto a very slippery slope into a Syrian mission." Omid Nouripour, security expert for the opposition Greens, said on Saturday.

Philipp Missfelder, a foreign policy spokesman for Chancellor Angela Merkel's conservatives in the Bundestag lower house of parliament, accused the opposition of endangering Germany's reputation as a reliable partner.

"I'm ashamed for my Bundestag colleagues," he told SPIEGEL ONLINE on Sunday. "To deny military protection to a NATO partner who feels threatened makes me blush with shame."

He may draw some relief from Turkey's announcement on Tuesday that NATO member states have agreed to supply Turkey with Patriots. The country has been talking to NATO allies about how to boost security on its border with Syria after mortar rounds landed inside its territory.

Berlin Signals Willingness to Help

"The countries who supply NATO with Patriot systems are known, we have reached an agreement with those countries. The official application will be completed as soon as possible," Turkish Foreign Minister Ahmet Davutoglu told a news conference. "Intensive work is underway and the talks have reached the final stage."

Only the United States, the Netherlands and Germany have the appropriate Patriot missile system available. The German government already signalled that it will provide help by saying it would analyze the request "with solidarity."

Germany can't afford to say "No" after it was heavily-criticized for abstainingin the United Nations Security Council vote that established the no-fly zone in Libya last year.

The opposition center-left Social Democrats and Greens have called for a German parliamentary vote on the deployment of the Patriot missiles systems along with around 170 troops, and Defense Minister Thomas de Maizière said on Monday that parliament would be involved. It's unclear at present whether a vote is needed, however.

German media commentators on Tuesday say Germany is obliged to help Turkey with what is largely a symbolic gesture of solidarity. After all, the Patriots aren't suited to neutralizing mortar rounds. The risk to Germany's international reputation by refusing assistance is greater than the risk of being dragged into the Syrian war by sending just 170 troops, the commentators say.

Center-left **Süddeutsche Zeitung** writes:

"German Chancellor Angela Merkel has been praising Turkey's level-headed position in the Syrian conflict. If Turkey now requests Patriots it would be an opportunity to follow up this verbal acknowledgment with deeds. The decision would also make it easier for the allies to demand concessions from Ankara on other issues where Ankara has been a difficult partner -- such as Cyprus."

"NATO's Supreme Allied Commander will stress the purely defensive nature of the deployment when he gives his marching orders. That too will be an unmistakable call on Ankara to continue to show restraint. Such caution is warranted. Perhaps the Turkish government has plans that go beyond securing its borders. The German opposition is speculating that Turkey wants to set up a no-fly zone in northern Syria. It could guarantee the rebels protection from the Syrian air force. The Patriots could, some are speculating, end up enforcing a no-fly zone."

"The German government thinks it will be able to prevent this. A United Nations mandate would be needed for a no-fly zone. But that is hardly conceivable given Russia's and China's support for the government in Damascus. If, however, a UN resolution on a no-fly zone were to come about unexpectedly and the Patriots were called on to help enforce it, Germany would have to be involved. To make the missiles available now but then to withdraw from the responsibility for implementing the UN mandate -- that would be inconceivable."

"The decision to station the missiles is a tough one for everyone. Experience shows that it is relatively easy to be drawn into a military engagement but that a withdrawal can be difficult. Regarding the Patriots, one can say that the risks seem manageable. In the end, it comes down to the question whether Germany is a reliable alliance partner. Solidarity shouldn't be shown at any cost. But in the case of the Patriots, a 'No' would seriously damage Germany's reputation."

Conservative **Frankfurter Allgemeine Zeitung** writes:

"Turkey is a member of NATO, it is a security partner of Germany and is entitled to solidarity. So if the government in Ankara requests that NATO station air defense missiles at the border with Syria, then Turkey is entitled to this request being checked in the spirit of alliance solidarity. The apocalyptic scenarios being painted by parts of the German opposition are inappropriate and miss the point. If German troops, meaning operating crews for two defense squadrons, are deployed in Turkey, they won't automatically be pulled into the Syrian civil war."

"At the moment the Middle East consists of many powder kegs with even more fuses. The region is in upheaval -- and Turkey, as Syria's neighbor, is directly affected. In this situation, solidarity should mean something."

Mass-circulation **Bild** writes:

"If the Turkish government asks NATO for support, we must help. An alliance is an alliance. You can't simply get out if things get uncomfortable. We should also be honest in another respect. The German army won't be deployed at the Turkish border to build bridges or repair school roofs. A war is looming there. A German army mission in this highly explosive region means that German soldiers may have to kill to protect Turkish territory. And that there may be deaths and injuries among our troops. The German government must state this clearly. Because we are entitled to the truth -- even if the truth is difficult."

Conservative **Die Welt** writes that in the end, the West will have to get militarily involved in Syria:

"The longer we wait, the more difficult and costly the intervention, inevitable in the end, will be."

"Enforcing a no-fly zone and setting up security zones for civilian refugees will be the immediate goal of a Western intervention. And until that happens, the stated readiness of Germany and the EU as a whole to take in Syrian refugees and give them a face and a public voice here would be a strong signal of solidarity in their desperate fight for dignity." -- *David Crossland* http://www.spiegel.de/international/europe/french-credit-rating-downgraded-amid-doubts-over-reform-path-a-868203.html

SPIEGEL ONLINE

11/20/2012 11:15 AM

Moody's Blues

Concern Spreads over Slow Pace of French Reform

Moody's on Monday slashed France's top credit rating, becoming just the latest institution to cast doubt on the country's ability to reform its inflexible labor market and boost growth. French President François Hollande has promised change, but markets have yet to be convinced.

It turns out that French voters aren't the only ones who have begun to doubt President François Hollande. On Monday evening, the ratings agency Moody's also expressed concern about the path on which France currently finds itself as it attempts navigates its way through the uncompromising euro crisis. Moody's announced that it was downgrading French debt by a notch, becoming the second ratings agency after Standard & Poor's to revoke the country's AAA top rating. Like S&P, Moody's long-term outlook on French debt is negative.

The move highlights concerns that France, rather than Spain or Italy, could be the true danger lurking in the heart of the euro zone. And worries that Hollande, who has shown only half-hearted interest in pursuing far-reaching economic reform, might not have the political backing necessary to modernize the country's economy. Indeed, a poll released by the newspaper *Le Journal du Dimanche* on Sunday indicated that Hollande's popularity has now decreased for six months in a row and stands at just 41 percent.

In downgrading French debt, Moody's highlighted a host of challenges facing the country's economy, focusing specifically on what the agency called "multiple structural challenges, including its gradual, sustained loss of competitiveness and the long-standing rigidities of its labor, goods and service markets."

In addition, Moody's pointed to sluggish economic growth in France. The economy posted a surprising upward tick of 0.2 percent in the third quarter of 2012, but the outlook remains grim, with the International Monetary Fund forecasting minimal growth next year, hardly enough to relieve the country of its persistent budget deficit. Hollande has pledged to reduce the deficit from its current level of 4.5 percent to 3 percent next year and earlier this autumn passed what has been described as France's harshest budget in 30 years. But his government has also forecast 2013 growth of 0.8 percent, much higher than what most experts expect, making it seem unlikely that he will achieve his budgetary targets.

'Overly Optimistic'

Analysts at Moody's are also skeptical of the French government's growth expectations. "The rating agency considers the GDP growth assumptions of 0.8 percent in 2013 and 2.0 percent from 2014 onwards to be overly optimistic," the agency wrote in its report.

More to the point, however, are the structural problems facing the country. In a special report in its current issue, newsmagazine *The Economist* highlighted many of them. In particular, the magazine noted that the public sector in the country is bloated, consuming some 57 percent of France's gross domestic product, and debt has skyrocketed in recent decades from 22 percent of GDP in 1981 to over 90 percent today.

Moody's echoed the magazine by highlighting many of the rigidities in the French labor market in justifying its downgrade. It is "characterized by a high degree of segmentation as a result of significant employment protection legislation," the ratings agency writes. Combined with other factors, the result is a lack of innovation and competitiveness and persistently high unemployment.

Hollande has noted the need to boost growth and indeed has been one of the primary critics of German Chancellor Angela Merkel's focus on austerity as a way to combat the euro crisis. But the French president has not made labor market reform a priority. Though he has promised to push through measures to improve flexibility, he has also passed a number of new laws that would seem to counter that pledge. In addition to raising taxes on the country's top earners and on businesses, he has also pushed through a higher minimum wage and reversed a planned increase to the retirement age.

Poor Track Record

Even the International Monetary Fund is worried. In a report released earlier this month, the IMF noted that France's "loss of competitiveness predates the crisis, but risks becoming even more severe if the French economy does not adapt along with its major trading partners in Europe, notably Italy and Spain which, following Germany, are now engaged in deep reforms of their labor markets and service sectors."

In responding to the Moody's downgrade, the Hollande administration appeared to be pointing the fingers at former President Nicolas Sarkozy. French Finance Minister Pierre Moscovici said on Monday night that the downgrade reflects inaction on the part of the country's previous government. On Tuesday, he went even further. "The rating change does not call into question the economic fundamentals of our country, the efforts undertaken by the government or our creditworthiness," he said.

It is a sweeping denial and serves to conceal the fact that Moody's actually would seem to have little faith that France will rapidly change direction. "Moody's recognizes that the government recently announced measures intended to address some of (the) structural challenges (facing the country)," the ratings agency wrote. "However, those measures alone are unlikely to be sufficiently far-reaching to restore competitiveness. And Moody's notes that the track record of successive French governments in effecting such measures over the past two decades has been poor."

cgh -- with wire reports

http://www.france24.com/en/20121116-france-economist-warning-ticking-time-bomb-eurozone-debt-economy

French fury at Economist's 'time-bomb' warning © AFP

France's industry minister (pictured, right) has slammed British weekly The Economist after it published a cover story describing the French economy as the biggest danger to Europe's single currency.

By Katharyn GILLAM (video) FRANCE 24 (text)

France's minister of industry slammed famed British weekly The Economist after it ran a 14-page special report calling the country's economy a ticking time bomb and the biggest threat to the euro currency's stability.

The Economist has published "caricatures that are worthy of Charlie Hebdo," minister Arnaud Montebourg told Europe 1 radio on Friday, referring to a French satirical magazine notorious for publishing a cartoon of a nude Prophet Mohammed in September.

In its edition set to hit news stands on Friday, the highly-respected British weekly warned that France's high taxes on businesses were eroding the country's competitiveness and that France was a bigger danger to Europe's single currency than the debt-stricken countries of Italy, Spain and Portugal.

The Economist said both French leaders and voters were dangerously behind on much needed economic reforms and that a major blowback was on the horizon. "You cannot defy economics for long," the weekly wrote, adding that "the crisis could hit as early as next year."

The right-leaning magazine highlighted Europe's strategic position in the Eurozone and its massive public sector that accounts for 57% of gross domestic product, the highest in the single-currency zone.

Business sentiment has also deteriorated, following "a string of leftish measures, including a 75% top income tax rate, increased taxes on companies, wealth, capital gains, and dividends, a higher minimum wage and a partial rollback of a previously accepted rise in the pension age."

The Economist loves "French bashing"

However, Montebourg said the British weekly was given to exaggerations. "Honestly, the Economist has never distinguished itself by its moderation."

In similar fashion, the head of France's MEDEF employers' association, Laurence Parisot, also rejected the magazine's claims as "completely exaggerated".

"In reality, The Economist is behind the times because its dossier was conceived before the Gallois report and the government's decisions to promote competitiveness," she told French BFMTV news channel in reference to a government-commissioned report that calls for slashing 30 billion euros ($38.54 billion) off payroll taxes and loosening existing labour laws.

The Economist raised French eyebrows earlier this year when it accused its citizens of being in "denial" during the presidential election campaign in late March, and called President François Hollande "dangerous" for Europe.

France's leading and left-leaning daily Le Monde said Friday that The Economist's new cover story was in line with the magazine's predisposition to "French bashing".

Financial data out on Thursday showed that the Eurozone had fallen into a second recession since 2009, but that France's economy had rallied between July and September of this year, showing modest 0.2% growth.

http://www.guardian.co.uk/world/2012/nov/20/moodys-downgrades-france-credit-rating

Moody's downgrades France's credit rating to AA1

Agency says outlook remains negative, despite Hollande's pledge that his reforms will reduce public deficit to 3% by 2013

The Guardian, Tuesday 20 November 2012 Kim Willsher in Paris

Moody's suggested that Hollande's proposed reforms were 'unlikely to be sufficiently far-reaching to restore competitiveness.' Photograph: Philippe Wojazer/Reuters

Moody's credit rating agency has stripped France of its coveted AAA rating and declared that the country's economic outlook remains "negative".

In what will be a severe blow to Socialist president François Hollande, the agency said it was reducing the country's rating from AAA to AA1, claiming France's ability for economic growth was being hampered by "structural challenges" including its lack of competitiveness, high unemployment, public debt and market rigidity.

It said it was not confident Hollande's government could – or would – introduce the necessary structural reforms and spending cuts to improve its rating in the medium term and expressed concern over France's exposure to risks from other ailing eurozone countries.

Moody's decision follows Standard & Poor's downgrading of France's rating a notch in January.

It came as France was reeling from a damning Economist article entitled "The time-bomb at the heart of Europe". The special report warned that the parlous state of the French economy, its rising unemployment, lack of competitiveness, dwindling industry and high public spending, could overshadow the problems of Greece or Spain, and **sparked angry reactions from French ministers.**

Defending the downgrade, Moody's stated: "France's long-term economic growth outlook is negatively affected by multiple structural challenges, **including its gradual, sustained loss of competitiveness and the long-standing rigidities of its labour, goods and the service markets.**

"France's fiscal outlook is uncertain as a result of its deteriorating economic prospects, both in the short term, due to subdued domestic and external demand, and in the longer term due to the structural rigidities noted above."

The agency expressed concern over France's exposure to other beleaguered eurozone economies through its trade and banking links.

Moody's said it was unlikely to upgrade France's rating in the medium term, but would consider changing the outlook from negative to stable if the government implemented economic reforms and tax measures that "effectively strengthen the growth prospects of the French economy and the government's balance sheet" and reverse the "upward trajectory in public debt".

It recognised that Hollande **has pledged structural reforms including reducing France's public deficit to 3% by 2013, but** stated the proposed measures were **"unlikely to be sufficiently far-reaching to restore competitiveness".**

"Moody's notes that the track record of successive French governments in effecting such measures over the past two decades has been poor," it said.

The Socialist government's economic strategy rests on forecasts that growth will reach 0.8% next year and in bringing unemployment, currently at a 13-year high, down.

France's finance minister Pierre Moscovici said the downgrade was a "sanction for past management" of the country, intended to incite the government, elected in May, to carry out reforms rapidly.

He said reducing the public debt was a priority. "The debt is an enemy."

http://www.telegraph.co.uk/finance/financialcrisis/9682594/Economist-time-bomb-cover-sparks-French-ire.html

Economist 'time-bomb' cover sparks French ire

French officials angrily rejected a charge by The Economist on Friday that France was the "time-bomb at the heart of Europe", accusing the magazine of sensationalist journalism.

The Economist's front cover showed seven loafs of "baguette" bread held together by a French tricolor with a lit fuse protruding from the centre. Photo: The Economist

By Telegraph Staff, and agencies 10:24AM GMT 16 Nov 2012

The Economist's front cover showed seven loaves of "baguette" bread held together by a French tricolour with a lit fuse protruding from the centre.

Its main article raised concerns that President Francois Hollande's economic reforms are not ambitious enough and so could jeopardize the future of the euro currency.

"Unless Mr Hollande shows that he is genuinely committed to changing the path his country has been on for the past 30 years, **France** will lose the faith of investors—and of Germany. As several euro-zone countries have found, sentiment in the markets can shift quickly," ***The Economist* wrote**.

"The crisis could hit as early as next year. Previous European currency upheavals have often started elsewhere only to finish by engulfing France—and this time, too, France rather than Italy or Spain could be where the euro's fate is decided. Mr Hollande does not have long to defuse the time-bomb at the heart of Europe."

Industry Minister **Arnaud Montebourg** told Europe 1 radio: "Honestly, *The Economist* has never distinguished itself by its sense of even-handedness."

"It is the Charlie Hebdo of the City," he said, referring to the French satirical weekly which in September drew international criticism for publishing cartoons depicting a naked Prophet Mohammad.

Aside from doubts over the scale of its reform efforts, many economists and EU officials are skeptical that it can hit its target of cutting its public deficit to 3pc of output to 2013 as promised.

Failure to do so could prompt financial markets to demand higher yields for its bonds, which are currently held around record lows of 2pc on the perception that France is, along with Germany, a safe haven in the eurozone.

Prime Minister **Jean-Marc Ayrault,** who on Thursday travelled to Berlin to explain France's efforts to boost its declining international competitiveness to Chancellor Angela Merkel, also denounced the cover.

"You are talking about a newspaper which is resorting to excess to sell paper. I can tell you that France is not at all impressed," he told French TV station late on Thursday.

Six months after his election, the Socialist Hollande has seen his popularity ratings plunge as he struggles to fulfil promises to reduce France's public deficit while kick-starting a domestic economy where unemployment has risen to 17-year highs.

His government surprised some observers with **ambitious moves last week to grant €20bn in annual tax credits to companies** as a way of lowering the high labor costs seen as holding French industry back, but many economists believe the measures are not sufficient by themselves.

In his first formal news conference since coming to power, Hollande on Tuesday defied his critics by vowing to reform at his own pace and asked French voters to judge him at the end of his mandate in 2017.

He had some good news on Thursday as data showed France's economy unexpectedly grew by 0.2pc in the third quarter as households splashed out on clothing and other items, although the risk of recession next year is not averted.

http://www.spiegel.de/international/europe/economist-sinn-warns-against-current-euro-crisis-course-a-868005.html

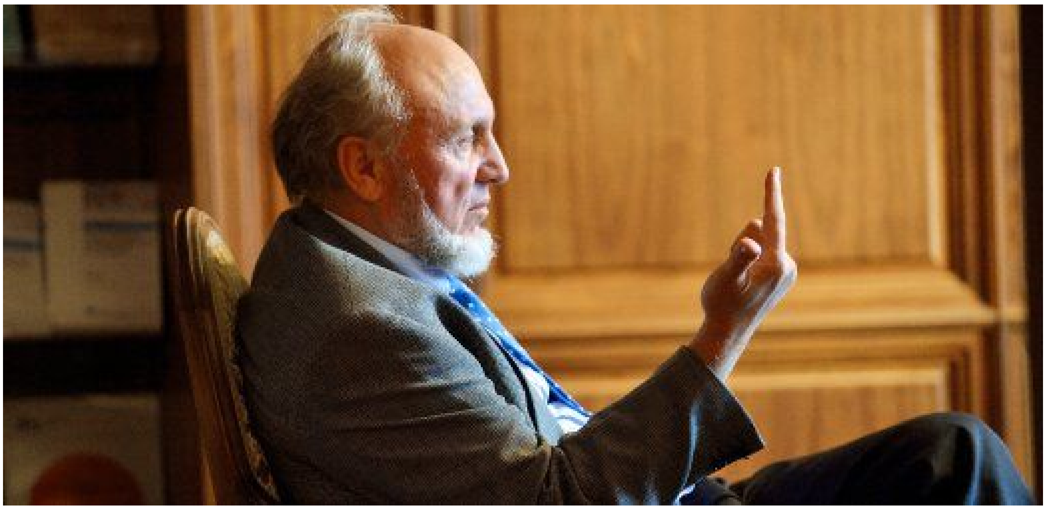
SPIEGEL ONLINE

11/19/2012 05:23 PM

Interview with Economist Hans-Werner Sinn

'Temporary Euro-Zone Exit Would Stabilize Greece'

By Armin Mahler and Michael Sauga



In a SPIEGEL interview, pugnacious German economist Hans-Werner Sinn warns of the huge dangers associated with a continuation of current bailout policies, why he believes Greece and Portugal should temporarily leave the euro zone and why financial markets are anything but irrational.

SPIEGEL: Mr. Sinn, Chancellor Angela Merkel feels as though economists have left her in the lurch. She once said that the advice that she receives from economists is "about as diverse as it gets." Can you see where she is coming from?

Sinn: No.

SPIEGEL: Excuse me? Economists have completely different ideas about how the euro can be saved. You suggest, for example, that countries should temporarily leave the euro zone until they have re-established their competitiveness. Others, by contrast, recommend collectivizing debt across the euro zone. How should politicians deal with such contradictory advice?

Sinn: There are differences in the recommended therapies, but fewer divergences in the analysis. There is considerable agreement today on the euro's defects.

SPIEGEL: But not on how the euro can be saved, or even whether it should be.

Sinn: I hope that it can be fixed. The euro crisis proceeds in phases, and we are always told that there is no alternative to the next phase, because otherwise the euro would crumble. So there was supposedly no alternative when the European Central Bank (ECB) granted its TARGET loans, when it forced the German central bank, the Bundesbank, to purchase sovereign bonds from Southern European countries against its will, and when increasingly larger rescue funds were approved. Now, they are planning to create a banking union to socialize the debts of banks in Southern Europe. The next step will be the introduction of euro bonds …

SPIEGEL: … which the German government vehemently rejects.

Sinn: By the time France is hit by the crisis, as everyone fears will happen, the German government will no longer be able to refuse this demand. This development will ultimately lead to a system that has little in common with a market economy. The ECB and the European Stability Mechanism (ESM), the permanent successor to the current rescue fund, will then direct the flow of capital -- with the approval of euro-zone governments -- into countries where it no longer wants to go. This will result in growth losses throughout Europe, and money will continue to be thrown out the window in Southern Europe. **Furthermore, it will create considerable discord because it makes closely allied countries into creditors and debtors.**

SPIEGEL: The alternative that you are pushing for, in which individual countries would withdraw from the monetary union, would cause enormous turmoil: Companies and banks would go bankrupt and Europe could possibly plunge into a deep recession for years to come. Doesn't that alarm you?

Sinn: I don't agree with the prognosis. If Greece exited the monetary union, the Greeks would purchase their own goods again, and wealthy Greeks would return to invest. And if Portugal leaves, it will have similar positive experiences. The Ifo Institute has studied some 70 currency devaluations and found that recovery begins after one to two years. We are, of course, also suggesting just a temporary exit. Greece and Portugal have to become 30 to 40 percent less expensive to be competitive again. This is being attempted through excessive austerity measures within the euro zone, but it won't work. It will drive these countries to the brink of civil war before it succeeds. Temporary exits would very quickly stabilize these countries, create new jobs and free the population from the yoke of the euro.

SPIEGEL: But who knows what would happen to the population in the event of an exit?

Sinn: We should stop proclaiming the end of the world in the event of an exit. Instead, we should shape the exit as an orderly process with relevant aid for the banks of the country in question and for the purchase of sensitive imports. What we are currently witnessing in Greece is a disaster -- and it's not a disaster caused by an exit, but rather by remaining in the euro zone.

SPIEGEL: How do you intend to ensure that one country's withdrawal won't automatically precipitate a wave of speculation targeting the next potential candidate?

Sinn: The markets aren't stupid -- they don't lump the countries together. We clearly see this with Ireland. Since the end of last year, Ireland's interest rates have fallen more significantly compared to other crisis-ridden countries because Ireland has reduced its prices by 15 percent, allowing it once again to generate current account surpluses.

SPIEGEL: Portugal and Spain are not Ireland.

Sinn: Such countries are in a position to convince investors. Spain only has to devalue by 20 percent. That's achievable within the euro zone. Greece and Portugal are in a separate category. These are the only two countries that consume more than they produce.

SPIEGEL: Now you are appealing to the financial markets to be reasonable. Yet they often overreact and behave irrationally.

Sinn: Where have you seen that?

SPIEGEL: Minor events are often enough to spark sharp increases in sovereign bond interest rates for countries in Southern Europe.

Sinn: But the markets are reacting rationally when they get cold feet and pull out of bad investments in Southern Europe. Last winter, interest rates rose in some cases to over 6.5 percent. Before the introduction of the euro, these countries had to pay interest rates of between 10 and 15 percent. The interest rate reflects the risk that investors will never see their money again. What's irrational about that?

SPIEGEL: If investors are afraid that the monetary union is collapsing, they will pull out their money. And that will, in fact, cause the euro-zone to fall apart.

Sinn: Not if countries change their budgetary policy. If they offer investors collateral in exchange for loans and plausibly argue that they don't intend to take on any new debt, then there will be no discrepancies in interest rates.

SPIEGEL: You say that the long-term consequences of the current rescue policy are more dangerous than the risks associated with changing course now. Is that science -- or a matter of faith?

Sinn: On the basis of sound analysis, I am pointing to a danger that that many do not perceive, and I am weighing things up. Euro-zone member states have made available €1,400 billion ($1,780 billion) in bailout loans, €700 billion of which has been contributed by the Bundesbank through its TARGET loans. On top of this, there is the ESM with €700 billion, which is to be leveraged to €2,000 billion with the help of private investors. This stabilizes the capital markets, but it also destabilizes the remaining stable European states and wipes out the savings of retirees and taxpayers. We are gradually sliding into a trap from which we will no longer be able to escape. This risk is, in my opinion, the greatest risk of all.

SPIEGEL: But other economists arrive at different conclusions when they analyze the situation. Honestly, if you were the chancellor, wouldn't you also take the safest apparent route forward, just as she is doing?

Sinn: I understand very well that politicians always have to bridge the gap until the next election, even if long-term dangers increase as a result. But as an economist, my time horizon is longer.

SPIEGEL: Isn't it perfectly reasonable to be extremely cautious in this situation?

Sinn: You can't convince me that it makes sense to stand by idly and watch as we take on increasingly greater risks. We are destabilizing our political system with this excessive rescue policy ...

SPIEGEL: ... but not if the rescue succeeds.

Sinn: I think that is rather unlikely because it would give us the wrong prices and thus result in a lack of competitiveness in the countries that are receiving public loans. I can't save drug addicts by meeting their demands for more drugs.

SPIEGEL: Proposals by economists also meet with skepticism because their field's reputation has been severely tarnished in recent years. Very few economists predicted the financial crisis, so it's no wonder that politicians no longer place much value in their advice.

Sinn: Only very few economists correctly predicted the time of the crash, that's true. But many had warned of dangerous developments on the financial markets. In 2003, for instance, I dedicated an entire chapter of my book, which deals with systems competition, to the lack of banking regulation -- and sparked a debate in which I favored stronger banking regulation. There were also American economists such as Martin Feldstein and Robert Shiller who repeatedly warned that the bubble on the US financial markets would eventually burst.

SPIEGEL: But surely you don't deny that up until the last decade the vast majority of economists were of the opinion that the financial markets should be liberalized as much as possible.

Sinn: Not in Germany. Leading German proponents of financial market theory such as Martin Hellwig have, like me, always emphatically urged stronger regulation of the financial markets.

SPIEGEL: In the United States, economists are characterized by their unrestrained faith in the markets, whereas here in Germany they are known for their argumentativeness. Last summer, two groups of economists, with two completely contradictory positions, went public on the euro issue: One group, which you belong to, strictly opposes a European banking union, while the other favors this move. Was this a successful initiative?

Sinn: You speak of contradictions where there were none whatsoever. Both groups were against collectivizing bank debts in Europe. The second spoke out in favor of a joint European banking regulatory agency, but the first group has yet to comment on this. The truth is different than how you perceive it: 495 German economists are warning the German government against bailing out Southern European banks with German tax money.

SPIEGEL: This raises the question of why you didn't formulate a joint appeal in the first place.

Sinn: I didn't write the appeal, but I signed it. The author was Walter Krämer from the University of Dortmund. A few days later, Krämer und I wrote an article for the *Frankfurter Allgemeine Zeitung*, in which we both came out in favor of a joint banking regulation regime. This could have admittedly also been part of the first public appeal.

SPIEGEL: Doesn't this show that the appeal may have been the wrong way to launch an economic debate?

Sinn: The idea was not to launch an economic debate, but rather to rouse the public. We saw a threat that the decisions made at the EU summit in June could pave the way for a collectivization of the debts of Southern European banks. The debts of the banks in crisis-ridden countries, however, are three times as high as the national debts. Who, aside from the banks' creditors, should assume these burdens?

SPIEGEL: Still, it should be noted that economists' recommendations are fraught with considerable uncertainty, particularly when it comes to a complex issue like the euro crisis. Your colleague Gert Wagner, president of the German Institute of Economic Research (DIW), says: "Everyone who says that they know precisely what to do is guilty of making the pretence of knowledge in a historically unique situation." Are you not being somewhat presumptuous?

Sinn: Economics professors are not paid to slink away during a crisis.

SPIEGEL: And you know just what to do?

Sinn: I weigh up the risks and make a decision. If I didn't do that, I wouldn't be doing my job as an economist.

SPIEGEL: Are there calls you have made where you later would say that you made a mistake?

Sinn: I was too quick to endorse the euro because I thought it would liberate the continent from endlessly fluctuating exchange rates. My mistake was that I believed that the nations of Europe would adhere to the Maastricht Treaty and not socialize the debts of Southern European countries. Older colleagues had already pointed to this danger at the time.

SPIEGEL: Have you ever considered becoming a politician yourself?

Sinn: No, I take my profession as an economist seriously and feel a commitment to the truth. This is incompatible with having to toe the party line. I aim to help the Germans and the Europeans successfully travel all the way down the path toward European integration, and I can do this more effectively if I don't commit myself to a party.

SPIEGEL: Mr. Sinn, thank you for this interview.

Interview conducted by Armin Mahler and Michael Sauga

Translated from the German by Paul Cohen http://www.eurotopics.net/en/home/presseschau/aktuell.html

Lidové noviny - Czech Republic

Germany deserves more respect in Europe

Norbert Lammert, the president of the German parliament, avoided directly criticising the Czech Republic on his visit to Prague last week. In his words, Berlin has problems with almost every country in the EU. Bearing in mind all they do for Europe the Germans deserve more respect, the conservative daily Lidové noviny writes: "Europeans don't even like the Germans when they pitch in billions of euros to help find a solution to budget problems in Southern Europe. And the way things look now Germany won't have an easy time in the negotiations over the EU budget for 2014-2020 either. ... Germany wants to please everybody in order to push through the EU budget. But in this way no one will be satisfied. And then we'll see yet another episode in the series 'Why doesn't anyone in the EU like the Germans?'. But thinking European is so deeply rooted in the mindset of the German elites that they'll be able to withstand this as well. Many Czechs don't like the Germans either. But the Germans don't expect Europeans to like them anyway. Nevertheless they do deserve to be treated with objectivity - and respect." (19/11/2012)

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TARGET losses in case of a euro breakup

Hans-Werner Sinn, 22 October 2012

Evaluation of the financial costs of a Eurozone breakup depends critically on the interpretation of the balances central banks hold in the EZ payment system. This column, which replies to the interpretation by De Grauwe and Ji, argues that TARGET balances represent real wealth that would be lost in a breakup.

When exchange rate adjustments are impossible, imbalances of cross-border payment flows must be accommodated officially. This baseline fact about monetary union has sparked extensive discussion on what the resulting asset positions mean (Sinn 2011a,b, Tornell and Westermann 2012, Whelan 2012).

On one side, Sinn and Wollmershäuser (2012) argue that Finland, the Netherlands, Luxembourg, and Germany face the risk of losing the TARGET claims of their national central banks should the euro break up. On the other, De Grauwe and Ji (2012) deny that such a risk exists[1]. They base this on the grounds that:

- The risk stems only from these countries' self-chosen net foreign asset position;
- Fiat money has a value independent of the corresponding national central bank's assets; and
- Foreign speculators could be excluded from a currency conversion if necessary;

Given that the Eurozone's gross TARGET claims or liabilities today amount to about €1 trillion and constitute the largest single item in the balance sheets of most central banks of Eurozone members, this would be good news for the four countries mentioned. If De Grauwe and Ji are right, however, one wonders why Moody's recently announced that it is considering a downgrade of the credit ratings of Germany, the Netherlands, and Luxembourg in view of the riskiness, among other factors, of their huge TARGET claims[2]. Can it be that the analysts of Moody's have overlooked something?

I will show that they didn't and that, in fact, all three points of De Grauwe and Ji are erroneous or do not apply to the assessment of TARGET losses in the case of Eurozone breakup. To this end, let me consider the issue in more detail. I will start by reviewing the nature of the TARGET imbalances according to Sinn and Wollmershäuser (2012) and then proceed, in turn, to each of the De Grauwe and Ji (2012) counterarguments. Some of my comments also apply to a new paper by Buiter and Rahbari (2012b) that came out after this note was written. I briefly refer to what I perceive as their error in the section on fiat money.

How the TARGET balances came about

Sinn and Wollmershäuser (2012) pointed out that by dramatically reducing the collateral requirements for the refinancing credits of Eurozone central banks, the ECB undercut market rates in the southern Eurozone countries and Ireland. This enabled a huge asymmetric expansion of refinancing credit and money creation, compensating for stalling capital imports and outright capital flight. The monetary expansion in the southern countries in turn enabled a net outflow of central bank money to other Eurozone countries by way of international payment orders for the purpose of buying goods and assets and redeeming foreign debt. Sinn and Wollmershäuser (2012) demonstrated that this outflow is a classical balance-of-payments imbalance, showed that its accumulated value is measured by the TARGET balances, and constructed the first comprehensive TARGET panel dataset out of the sometimes confusing and non-homogeneous balance sheet information provided by Eurozone member central banks, and the IMF[3]. They argued that the ECB compensated for, and may even have caused, capital flight inasmuch as it replaced expensive foreign interbank credit with cheaper credit from the local electronic printing presses, and helped maintain and prolong structural current-account deficits that otherwise would have been difficult to finance.

In the surplus countries, commercial banks placed the funds they withdrew from the deficit countries with their own central banks, which implied a sterilisation of the inflowing liquidity. Because of the sterilisation, the policy has (thus far) not been inflationary, but for that same reason it is a pure fiscal credit transfer that resembles the official intergovernmental credit transfers.

Sinn and Wollmershäuser (2012) argued that this policy was defensible at the time of the Lehman crisis, but has meanwhile begun to undermine the allocative function of the capital market by offering credit at conditions that do not take idiosyncratic country risks into account and undercut the market rates. They also maintain that the TARGET debts impose risks on the rest of the Eurozone countries in proportion to their share in the ECB capital, should the deficit countries default and leave the Eurozone. In the case of a breakup of the Eurozone, the surplus countries' TARGET claims themselves would be at risk.

Exogenous current-account balances?

De Grauwe and Ji (2012) concentrate on the risk in case of a Eurozone breakup. They argue that this risk stems from the size of the northern countries' portfolio of net foreign assets built up from previous current-account surpluses, rather than from the composition of this portfolio. As the current-account surpluses are “entirely [their] ... own decision”, independent of the ECB's refinancing policy and the resulting TARGET balances, there is no reason to worry about this risk.

This view is erroneous, since the current-account deficits, which resulted from years of easy access to international capital markets that the euro brought to the countries of southern Europe, could hardly have come down as slowly as they did during the crisis if the ECB had not replaced private capital inflows with cheap refinancing credit.

To be specific, a more restrictive ECB refinancing policy, in the sense of continuing to demand first-rate collateral from southern banks rather than continuously reducing the collateral requirements to junk levels[4], would have resulted in a lower flow of refinancing credit to the banks of the deficit countries, lower TARGET liabilities, higher local interest rates in these countries, less capital flight or even continued private capital imports, less investment and government consumption, and hence lower current-account imbalances among the countries of the Eurozone. Thus, whatever the value judgement on the ECB's policy is, it cannot be true that a country's current-account surplus and its net foreign asset position merely reflect that country's own decisions, as De Grauwe and Ji (2012) maintain.

Note, moreover, that saying that the current-account deficits were sustained with the extra refinancing credit behind the TARGET balances does not equate to claiming that current-account deficits and TARGET deficits were positively correlated, as some economists criticising Wollmershäuser and Sinn (2012) have insinuated. On the contrary, to the extent that the ECB helped slow down the adjustment of pre-crisis current-account deficits despite the reversal of private capital flows, the correlation should have been small if not zero, while the correlation between private capital imports and TARGET deficits should have been (and was) strongly negative, as Wollmershäuser and Sinn (2012) demonstrated with their country analyses. However, it does mean that the ECB's extra refinancing credit, which resulted in TARGET debt, helped provide the funds needed to finance the current-account deficits. Note that, by the definition of a country's budget constraint, the sum of TARGET balances, (private and intergovernmental) international capital flows, and current-account imbalances is zero.

Even if De Grauwe and Ji’s (2012) claim was right, that only the net foreign asset positions, and hence the accumulated current-account imbalances, matter for the breakup risk, the TARGET balances would still indicate such a risk inasmuch as without the public capital flow from north to south that these balances measure, the overall capital flow in this direction would have been smaller.

Portfolio composition matters

However, this is not the main problem with De Grauwe and Ji’s (2012) analysis. The view that the portfolio composition of a country's net foreign asset position is largely irrelevant for an assessment of the breakup risk is itself erroneous. If this view were correct, the risk of a balance sheet could be measured by the difference between its assets and liabilities, while the riskiness of the assets themselves would not matter.

What the authors overlook is the difference in the risk that a Eurozone breakup imposes on different kinds of foreign assets and different kinds of domestic owners of such assets. Consider a surplus country like the Netherlands. Dutch asset owners hold foreign ownership titles like bank debentures, government bonds, company shares, or titles to foreign real-estate property. If the euro breaks up, these titles continue to be legal titles protected by law. Granted, there is an exchange rate risk, but in principle the legality of the titles is not questioned. By contrast, the Dutch TARGET claims are claims on the ECB system held by a government institution, the Dutch central bank and hence the Netherlands, whose value hinges on the ECB's continued existence.

If the Eurozone breaks up and the TARGET debtors go bankrupt, there is no clear legal basis for the TARGET claims, and the Netherlands would hold a claim against a system that no longer exists. Neither the ECB bylaws nor the Maastricht Treaty contain any rules for how this case would have to be handled. Should the euro break up, there will probably be a follow-up institution that inherits the ECB’s equity capital, currently about €31 billion. The Netherlands will then have to compete for this equity with Germany, Finland and Luxembourg, who together with the Netherlands hold TARGET claims currently amounting to about €1,000 billion. In all likelihood, the lion's share of the TARGET claims will be lost, while marketable ownership titles would remain legally valid. All four countries will then plead with their former partners in the Eurozone to share in the losses, but these will likely point out that quite a number of official voices from the surplus countries had called the TARGET balances irrelevant, merely statistical items with no economic significance – and there will be enough economists defending this view, perhaps even alluding to the fiat money interpretation that will be discussed below.

Thus it is not irrelevant for the Dutch risk that, by way of the ECB's generous refinancing policies that undercut market conditions, marketable claims have been converted into mere TARGET claims held by the Dutch central bank. Nothing could be more erroneous than such a view.

This is particularly true since a considerable part of the marketable assets constituting the Dutch net foreign asset position before the emergence of TARGET balances were claims against countries whose creditworthiness was impeccable. It is well known, for example, that Dutch and German banks actively lent their funds to French banks, which then distributed them to southern European banks. Although France has a negative net foreign asset position, the Bank for International Settlements’ statistics show that its banks had invested much more in the crisis-affected countries than Germany. During the crisis, the French banks partially retreated from the southern countries with whose printing presses they could not compete, the Dutch and German banks then partially retreating from France, since the French banking system no longer needed their funds. The Dutch and German banks placed their funds instead with their respective central banks or, equivalently, drew less refinancing credit from them. The double retreat of capital (from the south to France, and from France to the Netherlands and Germany) kept the French TARGET balances largely unchanged, but it generated Dutch and German TARGET claims and southern TARGET liabilities. In the end, in the Netherlands and Germany, market-grade private claims on the French banking system were replaced by additional private claims on the Dutch central bank and the Bundesbank, or by reduced liabilities from refinancing credit, with these national central banks themselves acquiring corresponding claims on the ECB system. This was certainly not a portfolio reallocation that kept the risk of a euro breakup unchanged for these countries as a whole, let alone for these countries' taxpayers.

TARGET balances are not gold, not even gold-backed securities

The risk imposed by the TARGET balances can also be highlighted by comparing the Eurozone with the Bretton Woods system of fixed exchange rates that lasted until 1973. In that system, too, there were significant balance-of-payments imbalances that involved substantial cross-country currency flows, basically the same as the flow of TARGET claims today. However, the imbalances had to be settled with dollars or gold.

The balance-of-payments surpluses that countries like France or Germany held with the US meant that dollars or dollar-denominated Treasury bills were accumulated by the Banque de France and the Bundesbank. As is well known, the Bretton Woods system came to an end when Charles de Gaulle asked the US in 1968 to convert the dollars accumulated by the Banque de France into gold, because the US did not have enough gold to convert the outstanding dollars of the whole world in this way[5].

However, there were not only balance-of-payments imbalances with regard to the US, but also among the European members of the Bretton Woods system. These imbalances had to be settled with dollars or gold, but given that the market price of gold was below the official dollar-gold parity, in practice the settlement was done largely with gold[6].

The Bundesbank at the time accumulated 3,600 tonnes of gold, which, except for the 6% that was transferred to the ECB, is still in its possession and amounts to practically all the gold it has. Gold nowadays has a value about 19 times that of when the Bretton Woods system came to an end in 1973.

In the Eurozone, the Bundesbank did not accumulate gold as a result of its balance-of-payments surplus, but mere TARGET claims, claims that are backed by TARGET liabilities and the corresponding extra refinancing credits given to the commercial banks of the crisis countries, which earn a rate of interest of currently 0.75%, far below the inflation rate. The central banks of Luxembourg, the Netherlands, and Finland are in a similar position.

For payments within the US, the situation was similar to the Bretton Woods system or to true gold-standard systems until 1913. Balance-of-payments imbalances between commercial banks used to be settled with physical gold transfers, which, as we know from old Western movies, were not without risk. To facilitate the settlement, the US in 1914 introduced the Federal Reserve system, consisting of 12 districts with their respective 'District Feds'. The advantage of that system was that the settlement could now be done by simply transferring ownership of gold-backed securities in a federal clearing portfolio, without the gold having to be physically transported. Later, in the 1930s, the gold-backed securities were replaced with Federal Government bonds, but in principle the system still operates today. Since the transferred ownership shares bear an interest rate of 6% that is not socialised among the district Feds, there is quite a penalty for District Feds that create and lend out more than their fair share of the monetary base. This is the reason why a TARGET-like problem has never arisen in the US to this day[7].

In the US, the settlement is performed every April according to a formula that typically eliminates some, but not all imbalances. During the crisis, the gross Interdistrict Settlement Account imbalances, the analogue of Europe's TARGET imbalances, increased to a maximum of 2.9% of US GDP, but the settlement, as well as local reductions in money supply to raise interest rates that attract capital from other districts and thus help to avoid a settlement, have meanwhile reduced the gross claims to 0.6% of US GDP, or $96 billion (10 October 2012). By contrast, based on the TARGET figures for September 2012, gross TARGET claims amounted to 11.4% of Eurozone GDP, or €1,020 billion[8]. Had the Eurozone been set up like the Bretton Woods system or the US Federal Reserve system, these TARGET claims would have to be converted into gold-backed securities or safe marketable securities bearing a 6% rate of interest transferred from the debtor central banks to the surplus central banks. Taking the most recent figures available at the time of writing, the Bundesbank would then have received claims on assets (including 6% interest) worth €695 billion (September), the Nederlandsche Bank assets worth €125 billion (August), the Banque Centrale du Luxembourg assets worth €128 billion (July), the Suomen Pankki assets worth €60 billion (July), the Banque de France €12 billion (July), and the Eesti Pank €0.1 billion (July).

Fiat money does not protect against TARGET losses

To further demonstrate the irrelevance of TARGET balances, De Grauwe and Ji (2012) point to the nature of fiat money. They rightly argue that fiat money has a value in and of itself for the private agents using it and that this value would not disappear if the euro ceases to exist and is replaced by a national currency.

Indeed, as fiat money is voluntarily held by private agents even though it does not generate interest, it must be delivering liquidity services that are equivalent to the interest foregone by not converting it into interest-bearing assets, and the present value of these liquidity services is identical to the accounting value of the money itself. Thus, fiat money is real wealth, and the economic value of the liability side of a national central bank’s balance sheet (for the private economy!) is independent of the value of the assets it holds, as the authors maintain. The central bank could therefore destroy its assets without reducing the value of the monetary base, as the authors also maintain.

While this is all true, it certainly does not mean that the central bank in question and the sovereign that owns it would not incur wealth losses if it destroyed its assets, as De Grauwe and Ji (2012) believe[9]. After all, it is the assets bought with self-printed money and the interest flow they generate that create the seignorage wealth of a central bank. In the Eurozone, the most important assets member central banks acquire are titles derived from providing refinancing credit to commercial banks, i.e. from lending them the newly printed money, and the value of these titles is equal to the present value of the interest flow from the commercial banks to the central banks that is generated by this credit. Voiding the central banks' claims on the commercial banks would eliminate this interest flow and would therefore make the central banks poorer.

Even though central banks have to book their outstanding monetary base as a liability, this base is equity from a truly economic perspective if the seignorage generated by the assets acquired with the newly created money is taken into account[10]. And one can even reason that a central bank's right to increase its monetary base in the future and buy even more assets with newly printed money is unreported equity that increases the central bank’s loss-bearing capacity, a view that follows from an early contribution by Wenger (1997) and was recently emphasised by Buiter and Rahbari (2012a,b)[11]. However, all of this does not imply that destroying the assets would be harmless, since parts of the thus-defined economic equity itself would also be wiped out. It is surprising that this simple, but crucial point seems to have been overlooked by so many authors.

The central bank's assets stand for a flow of interest returns from commercial banks to the central banks, whose present value is the same as the value of the assets. Since the central bank’s seignorage profit is normally handed over to the sovereign, it is this sovereign and its domestic taxpayers who would suffer the loss if the TARGET claims, today the most important assets of four central banks in the Eurozone, were destroyed.

In a normal situation without TARGET imbalances, as prevailed in the Eurozone until 2007, the assets of a central bank consist predominantly of interest-bearing claims resulting from refinancing credit given to commercial banks within the country, or securities bought from them. The flow of seignorage profit thus comes largely from the domestic commercial banks and their credit customers, goes to the socialisation mechanism of the ECB, and is then distributed to the sovereigns, and hence taxpayers, of Eurozone countries in proportion to their respective capital shares. In a symmetric equilibrium, every sovereign receives just as much seignorage profit as its central bank collects from the domestic commercial banks.

When the TARGET balances began to rise in the Eurozone after the outbreak of the financial crisis in the summer of 2007, the electronic printing press was 'lent' by the northern to the southern Eurozone central banks, and so the Eurozone's claims from issuing refinancing credit and the corresponding interest revenue came increasingly from southern rather than northern commercial banks, the reallocation of claims being approximately measured by the TARGET balances (see Sinn and Wollmershäuser 2012). Because of the socialisation of seignorage in the ECB system, this is irrelevant for each central bank’s distribution of seignorage to the respective sovereign as long as the euro exists. (There are severe disadvantages, though, for the capital-exporting countries insofar as the competition of the printing press keeps the market interest rates below the levels that otherwise would have prevailed.)

However, if the euro breaks up and if the TARGET claims are not honoured as legally valid titles, or the TARGET debtors are unable to repay while the TARGET-neutral countries object to share in the losses, the seignorage stemming from the commercial banks of the TARGET debtor countries would no longer flow into a common pool and the TARGET surplus countries would lose their TARGET claims, with the present value of the lost seignorage being exactly equal to these claims (whatever the time path of the rate of interest). This is entirely independent of the fiat money aspect on which De Grauwe and Ji (2012) focus, and independent of the size of the ECB's or the Bundesbank's loss-bearing capacity emphasised by Buiter and Rahbari.

It also does not matter to whom the commercial banks lent the money they borrowed from their central banks, be it private clients or local governments, and whether or not the commercial banks were able to provide good collateral to their national central banks. The commercial banks, and not their clients, are liable to pay the interest to their central banks, and if their central banks do not honour their TARGET liabilities after a breakup of the Eurozone, it is the central banks of the TARGET-surplus countries that will suffer the loss. Given that the latter would lose their legal relationship with the commercial banks of the debtor countries, they have to satisfy themselves with the TARGET claims and incur a wealth loss equal to these claims, if the debtor countries' central banks do not honour these claims after a Eurozone breakup. This is a real loss of interest returns from foreign commercial banks, regardless of how large the loss-bearing capacity of the TARGET-surplus countries is.

Would restricting money conversion to residents avoid TARGET losses in case of a breakup?

De Grauwe and Ji (2012) conclude their paper by arguing that the only risk for the 'virtuous German taxpayer' (and presumably for the equally virtuous Dutch and Finnish taxpayers) is a speculative flight into German deposits from countries whose currencies would most likely devalue after a breakup. If the Bundesbank converts all domestic accounts into the new national currency, there would be too many deutschmarks to start with and hence one must reckon with inflation-induced wealth losses for the domestic economy. However, the Bundesbank could easily avoid this wealth loss by limiting conversion into the new national currency to residents.

This argument is true, but it applies only to last-minute capital flight. Since the speculative flight into German deposits generates new TARGET claims of the Bundesbank on the ECB system that would not be recognised after a breakup of that system, the Bundesbank would indeed incur additional losses by carrying out the payment orders, filling German deposits on behalf of foreigners. There would be no difference between this case and the earlier capital flight already reflected in the TARGET balances.

However, the remedy the authors suggest, namely excluding non-residents from converting their German euro accounts into deutschmark accounts, only works for TARGET imbalances built up at the very last minute by transferring the money to German accounts. It would not help with the prior imbalances, because these did not result from building up deposits in German banks.

For one thing, deposits were at best transitory. Practically all the money that foreigners transferred to Germany and that led to TARGET imbalances has quickly been converted into real assets, such as private and government bonds, or ownership titles to firms or real estate. It is impossible and illegal to disentangle the ownership claims generated in this way at the time of a currency breakup.

For another, and more importantly, the capital flight reflected by the surge of TARGET imbalances in Ireland, Italy, and Spain was not predominantly a capital flight of residents from these countries, but a retreat of the banks of the surplus countries from the credit markets of the deficit countries, a flight from a stormy sea back to the home harbour. The banks of Luxembourg, the Netherlands, Finland, and Germany not only stopped lending to finance other countries' current-account deficits, but also withdrew the outstanding funds by refusing to renew credit contracts at maturity. The banks of the deficit countries redeemed their debt in net terms also because they found the credit from the domestic printing press cheaper than the interbank credit, given that the ECB did not demand a risk premium. The banks of the surplus countries invested the funds instead with their central banks, which received the TARGET claims. It is also impossible to disentangle these operations if the euro breaks up. Thus, from the perspective of the deficit countries, the previous benefits from the TARGET imbalances in terms of a real resource flow would remain, but the corresponding debt will likely disappear.

Conclusion

Europe has suffered from a severe balance-of-payment crisis, as capital markets were no longer willing to finance current-account deficits and outright capital flight occurred, largely from southern to northern countries, prompting the ECB to step in with the printing press. By successively reducing the quality of the collateral that commercial banks had to pledge to their respective national central banks, the ECB dramatically expanded the monetary base created in the southern countries of the Eurozone by way of providing refinancing credit. This additional money replaced the money flowing out by way of payment orders to other countries for the purpose of buying goods and assets and for the redemption of foreign debt. Economists call this outflow a balance-of-payments deficit. The accumulated deficit is reported in the central bank balance sheets as TARGET debt, since it means that the central banks carrying out the payment order had to credit the payments to the private firms and banks receiving the payments.

Under the Bretton Woods system, the balance-of-payments deficits between the European countries were largely settled with gold transfers between the central banks (since the market price of gold was below the dollar-gold parity). In the US Federal Reserve System, they are settled by transferring ownership shares of safe marketable assets in a federal clearing portfolio, the transferred capital bearing a rate of interest of 6%. In the Eurozone, they are simply booked as TARGET imbalances in the balance sheets of the central banks, annually augmented by the main refinancing rate (currently 0.75%).

With its policy of offering generous refinancing conditions that undercut the capital market, the ECB did not cause, but sustained and slowed down the adjustment of the current-account imbalances stemming from the time when the euro triggered excessive capital flows to some of the periphery countries (implying a close-to-zero correlation between current accounts and TARGET balances). Without this policy, whether right or wrong, the deficits would have been difficult to finance, local interest rates would have been higher, and the imbalances would have been smaller.

The banks of the northern countries used the excess liquidity coming in through payment orders from the south to redeem their stocks of ECB refinancing credit and to lend money to their central banks. Thus, the ECB's policy has effectively converted northern savings from private marketable assets issued by other countries into claims on, or reduced debt with, the respective national central banks, which themselves hold corresponding TARGET claims on the ECB system. Often the conversion meant that Dutch and German claims against French banks, which retreated from their role as credit intermediaries between northern and southern Europe, were converted into TARGET claims on the ECB system.

It is a matter of debate whether the ECB has protected the Eurozone from an irrational capital market, or distorted the allocation of capital in the Eurozone and deprived the savers of the northern countries of their interest income by undercutting market conditions. However, it definitely has tolerated, if not created, huge TARGET imbalances that impose a particular risk on the northern countries should the euro break up. Thus, Moody's judgement about the risk that the TARGET balances impose on the Netherlands, Luxembourg and Germany is justified.

The TARGET claims represent a euro breakup risk for the creditor countries for the following reasons:

- Unlike the marketable assets behind a country's net foreign asset position, the TARGET claims would lose their legal base, because they are claims against a system that would no longer exist and because there are no legal rules and specifications in the ECB system to handle such a case. The equity capital of the ECB itself would only be able to cover a tiny fraction of its TARGET liabilities.
- Although a country's monetary base would retain its value after a breakup of the euro and a conversion to national currency, it would not be irrelevant if a country's TARGET claims are destroyed, since they represent the present value of a flow of seignorage stemming from other countries' commercial banks that compensates for prior outflows of goods, assets, and debt certificates to these countries. An interruption of the flow of seignorage from foreign commercial banks would imply real wealth losses for the surplus country's taxpayers and/or savers, the present value of which equals the TARGET balances. This is entirely independent of the size of their loss-bearing capacity, which is irrelevant for the question in hand.

- If destroying the TARGET claims were irrelevant, then destroying the Bundesbank's stock of gold reserves would also be irrelevant, because this stock was accumulated from TARGET-like imbalances under the Bretton-Woods system.
- Excluding non-residents from a conversion of deposits into the new national currency is useful to counter a last minute surge in TARGET claims before a breakup, but it is no solution for the previously existing TARGET claims, given that the latter reflect prior purchases of goods and assets abroad as well as a repayment of foreign debt. These transactions have left no traces in today's deposits. From a practical and legal perspective, it is impossible to identify the historical beneficiaries of the TARGET imbalances.

The risks described above, as well as the implications of a reallocation of savings among alternative uses within the Eurozone that results from the ECB's policies, show that there is every reason to be concerned about the TARGET imbalances. The sort of asymmetric monetary expansion they represent has no counterpart in the US system. If the euro is to survive politically, a settlement mechanism must be introduced in the Eurozone.

To be sure, the potential TARGET losses are a strong, though certainly not the only, reason for why the northern Eurozone countries should fear a breakup of the euro. However, Europe cannot be built on the fear of a breakup, but instead on the prospects for a mutually beneficial cooperation. The Eurozone must find its way back to a system of fair, voluntary exchange, and to budget constraints that reflect the true scarcity of resources. Copying the monetary rules of the US could be one way to achieve this goal.

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http://www.voxeu.org/article/making-sense-target-imbalances

Making sense of Target imbalances

Willem Buiter, Ebrahim Rahbari, Juergen Michels, 6 September 2011

The Eurozone money transfer system, TARGET2, has huge imbalances whose meaning is subject to much debate. This column introduces a new CEPR Policy Insight by Citigroup Chief Economist Willem Buiter and co-authors that sorts out the issues. It argues that the imbalances show some banks can't fund themselves without public support. This is a wakeup call – Eurozone banking systems must rapidly be put on sound footing.

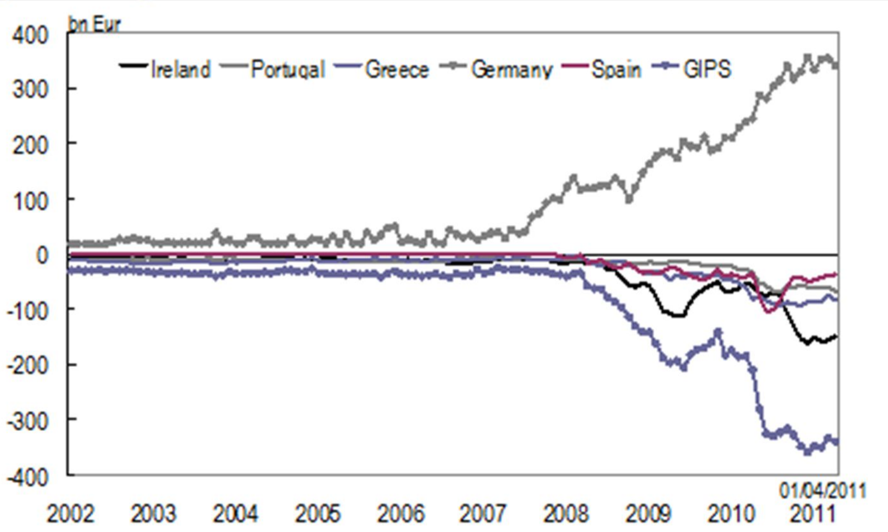
Since the euro's creation, net claims and liabilities of individual central banks with respect to TARGET2 were small. Recently however, the liabilities of several central banks along Europe's periphery have boomed. Simultaneously, the Bundesbank's claims on TARGET2 rose – basically in line with the periphery's liabilities (see Figure 1).[1]

- What has caused this rise?
- And what are the implications for Europe?

The debate rages.[2]

This column introduces a new CEPR Policy Insight (Buiter *et al* 2011) that outlines the facts and their interpretation. We leave aside the who-said-what polemics.

Figure 1. Selected Countries – TARGET2 Net Claims (€ billions), 2002-2011



Note: See Policy Insight for notes and sources.

How do TARGET2 imbalances arise?

Our CEPR Policy Insight (Buiter *et al* 2011), presents a stylised model of balance sheets in the Eurozone. It assumes two countries, Germany and Ireland – each with just three sectors – the national central bank, the banking sector, and the rest of the economy. We present two examples of types of transactions that can give rise to large changes in TARGET2 balances.

Example 1: An Irish farmer borrows from an Irish bank to buy a German tractor

Consider the following example: An Irish farmer borrows *X* euros from an Irish bank to purchase a German tractor.As a result of this transaction, the Irish capital stock increases and loan balance of the Irish economy with respect to Irish banks increases. Now assume (note that this is an assumption, if not an implausible one), that instead of reducing its assets or borrowing from other sources, the Irish bank increases its borrowing from the Central Bank of Ireland. The Central Bank of Ireland in turn increases its (gross and net) debt to TARGET2. In our model, as there were no other transactions in the current account of Ireland, its current-account deficit has increased. Such an example could in principle illustrate how an increase in the net TARGET2 liabilities of the Central Bank of Ireland is created or driven by an Irish current-account deficit.

Example 2: A German farmer moves deposits from an Irish bank to a German bank

Now consider a second example. Imagine a German farmer with a deposit in an Irish bank. Perhaps out of concern for the solvency of the Irish bank, the farmer decides to withdraw these deposits and instead deposits them within a German bank. Deposits held in the Irish bank by the rest of the German economy would fall. Assume again that instead of reducing its assets or borrowing from other sources, the Irish bank increases its borrowing from the Central Bank of Ireland to make up for the lost deposits and that the Central Bank of Ireland in turn increases its (gross and net) debt to TARGET2.

Spot the difference

The implications for the TARGET2 net balances of the Central Bank of Ireland or the Bundesbank are *identical* in the two examples. But the narrative is very different. The second example does not imply a current-account deficit or trade deficit of Ireland *vis-à-vis* Germany. Instead, the driver is what could be termed “deposit flight” – a movement of financial balances from Ireland to Germany which is, at least directly, unrelated to the demand for goods – it is a financial portfolio rebalancing that does not require any change in the national saving-investment balance.

Circumstantial evidence

The above discussion is not just theoretical. Figures 2 through 5 compare TARGET2 imbalances of national central banks and cumulative current-account balances for Germany and Ireland (see our report for more examples). While not ideal, these data are suggestive. The charts for Ireland (Figures 4 and 5) are particularly telling.

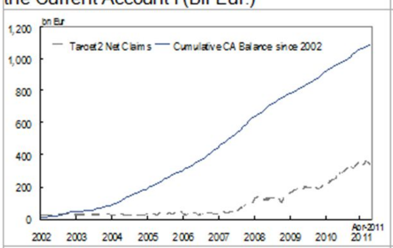
- The overwhelming majority of increases in Irish net TARGET2 liabilities were between 2008 and 2010; and
- In all three years increases in Central Bank of Ireland TARGET2 liabilities were multiples of the Irish current-account deficit;

If TARGET2 liabilities were financing the Irish current-account deficit with the rest of the world at all, they also financed an even larger net capital outflow from Ireland.

- We are careful to point out that this evidence is insufficient to allow us to conclude that current-account imbalances did *not* contribute to the increases in net TARGET2 imbalances.

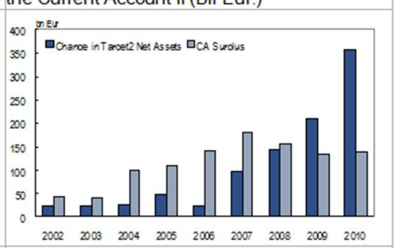
At best, the presence or absence of close correlations is suggestive.[3]

Figure 2. Germany – TARGET2 Balance and the Current Account I (Bil Eur.)



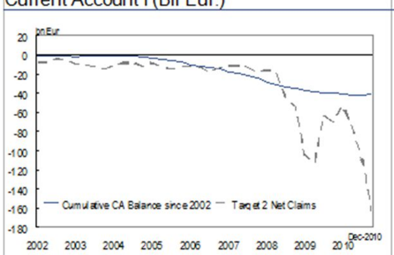
Note: See Policy Insight for notes and sources.

Figure 3. Germany – TARGET2 Balance and the Current Account II (Bil Eur.)



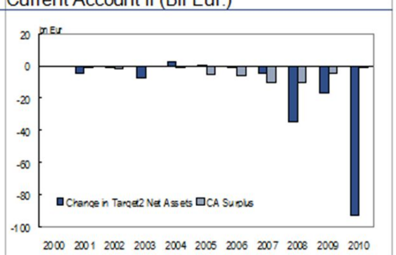
Note: See Policy Insight for notes and sources.

Figure 4. Ireland – TARGET2 Balance and the Current Account I (Bil Eur.)



Note: See Policy Insight for notes and sources.

Figure 5. Ireland – TARGET2 Balance and the Current Account II (Bil Eur.)



Note: See Policy Insight for notes and sources.

Do increases in Central Bank of Ireland net TARGET2 liabilities reduce ECB/Bundesbank credit for German banks?

What do these imbalances mean for other Eurozone economies? For simplicity's sake, assume again that an Irish farmer borrows *X* euros from an Irish bank to purchase a German tractor with the result that the Central Bank of Ireland ends up with an increases in its (gross and net) debt to TARGET2 (the implications from the other examples are equivalent).

The balance sheets of the Irish banks, the rest of Ireland, and its central bank all increase.

- As the central bank has borrowed from TARGET2, the credit to Irish banks also increases;
- The Irish monetary base is unchanged.

If the tractor was second-hand, the German capital stock falls while deposits with German banks from the rest of the German economy increase.[4] At this stage, German banks face a *choice*.

- The first option is to take the increased deposits from the German economy and deposit them with the Bundesbank.

In that case, the German monetary base and the balance sheet of the Bundesbank would rise, and as a result also the total monetary base in the Eurozone would also rise.

- The second option for German banks is to deposit the extra funds with the Bundesbank, *ie* to reduce their loans from the Bundesbank.

Here German and Eurozone monetary bases are unchanged. The sizes of the balance sheets of German banks, the Bundesbank, and the rest of Germany would also remain unchanged. But in this scenario, Bundesbank credit to German banks would *fall*.

In our model, however, there is no reason to suspect that the second option is any more or any less likely to be taken by German banks than the first option – it would depend, among other things, on general funding conditions for banks, alternative investment opportunities, and the terms and conditions of central bank and private funding. Even if Bundesbank credit to German banks were to fall, we must be clear that it would be the result of a *choice* made by German banks. Whether the TARGET2 balance-increasing Irish transactions have "crowded out" CB credit to German banks is then a matter of semantics.

We argue that it is more likely that German banks *chose* to demand less Bundesbank credit. This is due to a combination of factors including the expiry of the 12-month long-term refinancing operation (LTRO) in July 2010, which would have made such credit a lot less attractive to banks.[5]

Do Bundesbank TARGET2 net claims reflect Bundesbank exposure to financial losses?

The Bundesbank's exposure to possible ECB losses is given by the total exposure of the Eurosystem times Bundesbank's share of ECB capital (see Table 1); all Eurozone central banks are similarly exposed. The exposure is limited to the size of the Eurosystem balance sheet – some €1.9 trillion on 27 May 2011. Of course, that exposure is balanced by the ECB's capital.[6]

In short, the Bundesbank is an ECB shareholder. It participates in profits or losses made by the entire Eurosystem. The key point is that its exposure to losses bears no relationship to the net credit position of the Bundesbank *vis-à-vis* TARGET2. It bears only a moderate connection to the size of its own balance sheet. TARGET2 balances are remunerated at the refi rate, but as any resulting profits are shared within the Eurosystem, it is irrelevant whether the Bundesbank has positive TARGET2 net claims or negative ones. The one important qualification is that Emergency Liquidity Assistance (ELA) facilities are excluded (see our Policy Insight for details).

Table 1: ECB capital shares

Central bank	**Capital key (%)**	**Adjusted capital key (%)**	**Paid-up capital (€)**
Belgium	2.43	3.47	180,157,051.35
Germany	18.94	27.06	1,406,533,694.10
Estonia	0.18	0.26	13,294,901.14
Ireland	1.11	1.59	82,495,232.91
Greece	1.96	2.81	145,939,392.39
Spain	8.30	11.87	616,764,575.51
France	14.22	20.32	1,056,253,899.48
Italy	12.50	17.86	928,162,354.81
Cyprus	0.14	0.20	10,167,999.81
Luxembourg	0.17	0.25	12,975,526.42

Malta	0.06	0.09	4,694,065.65
Netherlands	3.99	5.70	296,216,339.12
Austria	1.94	2.78	144,216,254.37
Portugal	1.75	2.50	130,007,792.98
Slovenia	0.33	0.47	24,421,025.10
Slovakia	0.69	0.99	51,501,030.43
Finland	1.25	1.79	93,131,153.81
Total	**69.97**	**100.00**	**5,196,932,289.36**
Note: See Policy Insight for notes and sources.			

Conclusions

The fates of sovereign and the banking systems in many Eurozone member countries, and in the Eurozone as a whole, are strongly intertwined, as first the financial crisis and soon after the Eurozone sovereign debt crisis has shown. Despite – or due to – the abundance of problems within the Eurozone, it is important to be careful in presenting and interpreting the facts in an objective way. In that respect, it is important to highlight that TARGET2 imbalances:

- Cannot be automatically linked to current-account deficits in those countries;
- Do not automatically reduce central bank credit to commercial banks in other member states (and any reduction of central bank credit should not be interpreted negatively, as implying reduced funding for banks and their customers); and
- Should not be interpreted as a measure of the risk exposures of the national central banks of TARGET2 creditor countries.

This does not mean that the increase in TARGET2 imbalances cannot be suggestive of serious problems.

- These imbalances may be – and currently likely are – a symptom of the difficulty of banking systems in a number of Eurozone periphery countries have in funding themselves in the markets without public support.

They should therefore primarily be understood as a call to action for policymakers to put the banking systems in the Eurozone periphery and core on a sound footing – a goal that continues to elude them even after almost four years since the onset of the financial crisis.

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http://www.voxeu.org/article/target2-scapegoat-german-errors

TARGET2 as a scapegoat for German errors

Paul De Grauwe, Yuemei Ji, 2 November 2012

A systemic Eurozone breakup would be the mother of all financial crises. This column – a rejoinder to Hans-Werner Sinn's recent column – agrees that Germany would lose massively from a breakup, but argues that the ultimate source is the €600 billion current account surpluses it ran with other EZ nations during the good years, not the TARGET2 system. German banks lent vast amounts to peripheral countries without doing a proper credit analysis. No one other than Germany itself is responsible for taking on these risks.

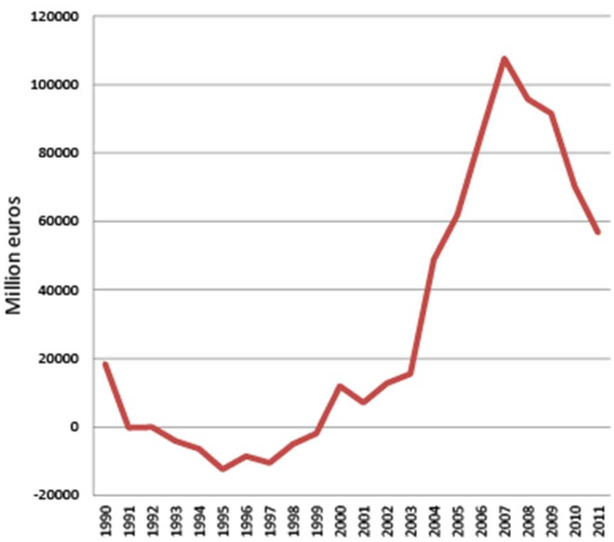
The accumulation of TARGET2 balances (claims and liabilities) has two possible sources, current account imbalances and capital flows (Buiter et al. 2011). Thus, Germany's accumulated TARGET2 claims of approximately €800 billion must be the result of a combination of current account surpluses and capital inflows. This is a matter of definition.

Disagreement arises from the nature of the risk that these TARGET2 claims imply for Germany (Sinn 2012, De Grauwe and Ji 2012). Let me discuss this risk by first concentrating on the German current accounts and then on capital inflows.

The German current account surpluses

Figure 1 shows the current account surpluses of Germany against the rest of the Eurozone (the data are collected by the Bundesbank). We observe that since the start of the Eurozone, a large build-up of German current account surpluses occurs. This coincided with the bubble years in peripheral Eurozone countries (2003-07). The effect of this is that Germany accumulated large *net* claims on Eurozone countries, which at the end of 2011 amounted to €634 billion.

Figure 1 Current account, Germany vis-a-vis the Eurozone



Source: Deutsche Bundesbank, Zeitreihe BBK01.EC1804: Saldo der Leistungsbilanz / EWU-Mitgliedsldr.

These current account surpluses did not lead to TARGET2 claims during the bubble years because the counterpart of these surpluses were increasing claims held by (mainly) German banks against the other Eurozone countries.

- Somewhat like a car company that lends consumers the money to buy their cars, the German banking system was lending the money to other Eurozone countries to allow them to buy surplus German products – a highly risky affair.

In the parlance of balance of payment statistics the current account surpluses were offset by capital outflows of equal magnitude. As a result, TARGET2 balances did not move.

- This created the illusion that no risk was involved; in fact the risks were increasing every year.

The build-up of net foreign claims (loans) that were the counterparts of increasing current account surpluses created a huge risk for Germany. It should have been obvious that the debtor countries could get into payment difficulties as they were piling up debt made possible by the loans of German banks. Yet the TARGET2 claims were not moving during these years, hiding the significant increase in risk exposure of Germany.

Put somewhat differently: The net foreign claims that Germany was building up could only occur because of past current account surpluses. There is no other way a country can accumulate net foreign claims than by having current account surpluses. This also implies that these net foreign claims have not been affected by the recent surge of TARGET2 claims of Germany. If there is a breakup of the Eurozone, Germany will face the risk that some debtor countries default on their debt. But again this risk is not affected by the size of the TARGET2 claims of Germany.

Risks Germany faces

The risk that Germany faces as a result of its net exposure to other Eurozone countries is therefore entirely of the country's own making. It is the result of Germany's preference for current account surpluses, and thus under its control.
Hans-Werner Sinn makes the point that had the ECB not been as liberal in providing financial assistance to peripheral Eurozone countries, the latter would have had lower deficits and thus Germany lower surpluses (Sinn 2012). But this effect must be small. Here are some numbers.

- Since the start of the Eurozone, Germany accumulated €665 billion of current account surpluses against the rest of the Eurozone.
- Only €127 billion was accumulated since the end of 2009 when the TARGET2 balances started to surge.

The largest part of these net foreign claims was built up prior to the debt crisis.

- Surely it must have been Germany's choice to accumulate these balances.

We guess that Hans-Werner Sinn will not want to contend that peripheral countries and the ECB somehow coerced Germany into accumulating current account surpluses prior to the debt crisis.

TARGET2 flows and current account imbalances

Sinn (2012) asserts that TARGET2 "helped maintain and prolong structural current account deficits" of peripheral countries. The facts are that since the surge in TARGET2 balances, these current account deficits, which are the counterpart of the large German current account surpluses, have declined dramatically. Figure 1 shows the facts.

- Since 2009, when the TARGET2 balances started to take off, current account deficits of the peripheral countries as a whole declined from 9.1% of their GDP to 4.5%.
- These declines were mainly due to deep recessions in these countries.

Sinn (2012) argues that these deficits would have had to decline even faster had there been no financing through the TARGET2 mechanism. This is certainly true. But this is the same as saying that these countries should have pushed their economies into even deeper recessions.

Capital flows explain most of the surge

The main reason why German TARGET2 claims have increased so much since 2010 is capital flows. The flows have taken two forms.

- The first one came about when German banks unloaded their loans made to peripheral countries into the balance sheet of the Bundesbank.
- The second one was the result of non-residents shifting their deposits from their local banks into the German banking system out of fear of a breakup of the Eurozone.

Let us discuss these two forms of capital flows from the perspective of how these have changed the risk of a breakup of the Eurozone for Germany.

Breakdown of the EZ interbank market

As a result of a breakdown in confidence, the Eurozone interbank market has ceased to function since about 2010. This led German banks to stop their credit lines to southern banks (and other northern EZ banks followed). As a result, German banks shifted the credit risk on their balance sheets into the balance sheet of the Bundesbank.

But does this constitute a fundamental increase in the risk that Germany as a whole faces in the case of a Eurozone breakup? The answer is negative.

- To see this, suppose German banks had kept their claims against peripheral banks on their balance sheets instead of shifting them to the Bundesbank.
- Assume now the scenario of a breakup of the Eurozone, which leads to large loan losses of the German banks due to peripheral-debtor defaults.
- Given the size of these losses, the chances are that a number of banks would have to turn to the German government to bail them out.

And surely the German government would not hesitate to do so.

Thus in the scenario of a breakup, with or without TARGET2 claims, the risk of large losses for the German taxpayer is very similar. Germany has exposed itself to large risks by reckless lending by its banks to peripheral countries. And thus the German taxpayer will pay for this if a breakup occurs independently of the TARGET2 system. The risk is there, but not due to TARGET2.

Speculative capital flows

The second type of capital flows arises when non-residents transfer deposits from their domestic banks into the German banking system, out of fear of a possible breakdown of the Eurozone.

- Up to now this has been a relatively marginal phenomenon, as can be seen from the fact that there has been no significant increase in bank deposits in the German banking system since 2010.

It could, however, become important in the run-up to a breakup of the Eurozone. But then, as we argued in De Grauwe and Ji (2012), the Bundesbank can eliminate the risk of such last minute accumulations of TARGET2 balances by converting euros into new German marks only for German residents.

Conclusion

- We have argued that the breakup risk, if it exists, is entirely of Germany's own making.
- Germany has followed a conscious policy of accumulation of current account surpluses vis-à-vis the rest of the Eurozone, especially during the period before the debt crisis.
- Inevitably this leads to a risk, as the counterpart of the current account surpluses was an accumulation of claims vis-à-vis the Eurozone.
- We have argued that if a breakup were to materialise, this will lead to losses for Germany, independently of the existence of TARGET2.
- Germany could have avoided this by reducing its current account surpluses; it refused to do so and thus the responsibility for this risk is Germany's, and not some obscure system like TARGET2.

Before the debt crisis, German banks had been willing to lend massive amounts to the rest of the Eurozone. Since the breakdown of the interbank market in the Eurozone, this risk has been shifted to the Bundesbank. We have argued that this shift has not affected the risk for Germany as a whole. With or without TARGET2, the risk that arises from reckless lending by German banks will have to be borne by Germany. Again, it is all too easy to look for a scapegoat outside of Germany.

Put differently, we maintain our conclusion arrived at in De Grauwe and Ji (2012) that the accumulation of TARGET2 claims by Germany has not added to the risks Germany faces in the case of a breakup of the Eurozone. The TARGET2 claims of Germany have not created a new risk in addition to pre-existing ones. The TARGET2 claims are just a repackaging of risks that Germany took by accumulating large current account surpluses and by the fact that, prior to the debt crisis, German banks were willing to lend vast amounts of money to peripheral countries without doing a proper credit risk analysis. No-one other than Germany itself is responsible for taking on these risks.

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Schuldenkrise:

Ökonomen uneins über Target-Risiken

17.10.2012 · Seit Monaten warnt der Ökonom Hans-Werner Sinn eingehend vor den Risiken der hohen Forderungen der Bundesbank im Target-2-Zahlungsverkehrssystem. Eine aktuelle Studie der amerikanischen Großbank Citigroup hält die Warnungen für überzogen.

Der Chefvolkswirt der amerikanischen Großbank Citigroup, Willem Buiter, hat die Debatte über mögliche Risiken aus dem Zahlungsverkehrssystem „Target2“ kritisiert und zielt damit insbesondere auf den Ifo-Präsidenten Hans-Werner Sinn. Dieser warnt, dass die hohen Forderungen der Bundesbank im Target-2-System von zuletzt rund 700 Milliarden Euro ein Risiko darstellten.

„Die Debatte über die Bedeutung und die möglichen Konsequenzen aus den Target-2-Ungleichgewichten ist voller Missverständnisse“, schreibt Buiter in einer aktuellen Studie. Target-Forderungen seien „allgemein ein schlechtes Maß“ dafür, welche Verluste einer einzelnen nationalen Zentralbank drohen (Exposure). Selbst bei einem völligen Bruch der Währungsunion läge der Verlust nicht in der Höhe der Target-Forderungen.

Der Bundesbank-Anteil am „Exposure“ aller Euro-Notenbanken gegenüber den GIIPS-Krisenländern (Griechenland, Irland, Italien, Portugal, Spanien) liege aktuell um die 323 Milliarden Euro. Buiter verweist darauf, dass sich die Zentralbanken des Eurosystems Verluste entsprechend ihrer Kapitalquoten (Deutschland: 27 Prozent) teilen würden.

Sinn hat in seinem Buch „Die Target-Falle“ und anderen Aufsätzen jedoch betont, dass der Anteil rasch steigt, wenn andere Länder aus der Währungsunion ausscheiden. Buiter bezweifelt generell, ob Zentralbank-Verluste reale Verluste seien.

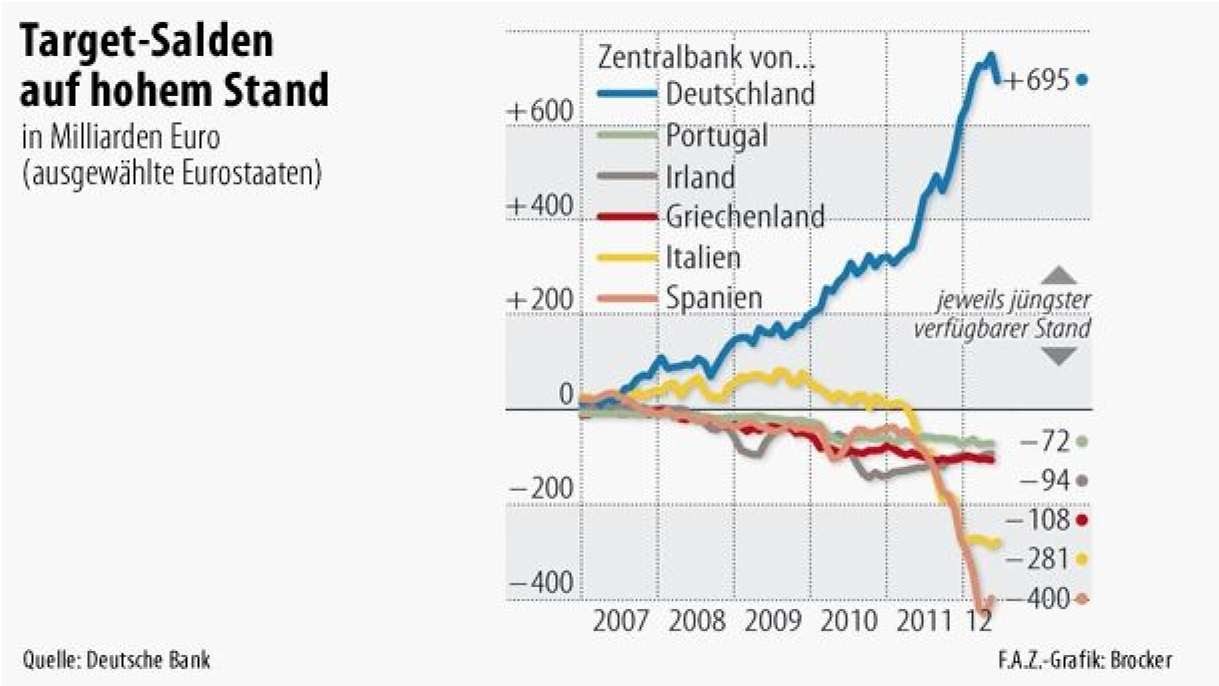
Quelle: ppl./F.A.Z.

http://www.faz.net/aktuell/wirtschaft/europas-schuldenkrise/schuldenkrise-ist-target-2-nur-ein-suendenbock-11964519.html

Schuldenkrise Ist „Target 2" nur ein Sündenbock?

18.11.2012 · Der belgische Ökonom Paul De Grauwe streitet mit Hans-Werner Sinn über die gewaltigen Ungleichgewichte im Eurozahlungssystem. Deutschlands Risiken würden nur „umverpackt", sagt De Grauwe.

Von Philip Plickert



Die Entwicklung seit 2007: Target-Salden auf hohem Stand

Die gewaltigen Ungleichgewichte von rund einer Billion Euro im Zahlungssystem „Target 2" erhitzen weiter die Gemüter von Ökonomen und lassen die Bürger erschaudern. Ifo-Präsident Hans-Werner Sinn sieht Deutschland in einer „Target-Falle". Denn die auf dem Target-Konto der Bundesbank stehenden rund 700 Milliarden Euro Forderungen an das Eurosystem wären bei einem Zerfall der Währungsunion zu einem Großteil verloren. Daher sei Deutschland erpressbar, kritisiert Sinn, dass es bei immer neuen Rettungsaktionen zugunsten der Europeripherie mitmachen muss.

Der belgische Ökonom Paul De Grauwe hat nun in einer recht scharfen Replik geschrieben, das Target-System werde „zum Sündenbock" gemacht. Es gebe keine zusätzlichen Risiken aus der Höhe der Target-Salden, vielmehr würden nur Deutschlands Risiken „umverpackt", die sich aus den jahrelangen Leistungsbilanzüberschüssen ergeben. **De Grauwe bezweifelt nicht, dass Deutschland extrem hohen finanziellen Risiken gegenüberstehe, doch seien diese „völlig selbstgemacht", nämlich durch den deutschen Export, schreibt er auf der Ökonomenplattform Vox**. In den Jahren bis 2008 schossen die Überschüsse im Handel mit den Peripherieländern in die Höhe, die damals blasenhafte Booms genossen. Finanziert wurde dies mit großzügigen Krediten deutscher Banken. Auf mehr als 600 Milliarden Euro türmten sich die Leistungsbilanzüberschüsse gegenüber den Euroländern bis Ende 2011.

De Grauwe betont, dass damit die heutigen Risiken angelegt wurden. Die Banken, die das Kapital in die Peripherie lenkten, gingen ein hohes Risiko ein. In **den Target-Salden** war davon nichts zu sehen. Bis zum Ausbruch der Krise lagen diese um die Null-Linie. **Erst seit Ausbruch der Krise 2008/2009 schossen die Target-Salden steil auseinander. Warum? Weil die Nord-Banken keinen Kredit mehr gaben**. Die Banken der Krisenländer mussten immer mehr auf Kredite bei ihren Notenbanken zurückgreifen. Dieser Geldschöpfung - Sinn spricht von einer „goldenen Kreditkarte - entsprechen auf der anderen Seite des Eurosystems die explosionsartig wachsenden Forderungen der Deutschen Bundesbank sowie anderer mittel- und nordeuropäischer Notenbanken. Die Forderungen stehen nun im Feuer und könnten zu gigantischen Verlusten führen. **„Deutschland hätte das vermeiden können, indem es seine Leistungsbilanzüberschüsse reduziert hätte; es weigerte sich, das zu tun, daher liegt die Verantwortung für das Risiko bei Deutschland und nicht bei einem obskuren System wie Target 2“, schreibt De Grauwe.**

De Grauwes Widerspruch zu Sinn erscheint aber etwas konstruiert, denn auch der Ifo-Präsident, der die Target-Problematik als Erster thematisiert hat, weiß, dass die Risiken schon im Kapitalfluss vor der Krise angelegt waren. Aber Sinn argumentiert, dass Target eine Verlängerung und Vergrößerung dieser Risiken bewirkt. Durch die unbegrenzte Zentralbankrefinanzierung können die Krisenländer weitere Leistungsbilanzdefizite finanzieren, zum anderen wird Kapitalflucht ausgeglichen. Der Sachverständigenrat hat in seinem Jahresgutachten jüngst erklärt, die Target-2-Salden seien „fast ausschließlich auf Veränderungen der Kapitalströme zurückzuführen“. Sinn sieht dies nur zum Teil als erwiesen an.

Problematisch an De Grauwes Argumentation ist seine Vorstellung, dass das Risiko „für Deutschland“ gleich bleibe - unabhängig davon, ob private Banken und Investoren oder die Bundesbank die Milliardenforderungen gegen die Europeripherie halten. Hinter der Bundesbank steht der deutsche Staat, mithin der Steuerzahler. Dieser haftet also letztlich für das Abenteuer**. Auf diese Verlagerung des Risikos von privaten Gläubigern hin zum Steuerzahler im Zuge der „Euro-Rettung“ zielt Sinns Kritik im Kern.**

Quelle: F.A.Z.

http://www.faz.net/aktuell/wirtschaft/wirtschaftspolitik/zuwanderung-blue-card-lockt-kaum-fachkraefte-nach-deutschland-11964803.html

Zuwanderung „Blue Card“ lockt kaum Fachkräfte nach Deutschland

18.11.2012 · Die „Blue Card“ soll die Zuwanderung von Arbeitnehmern aus dem Ausland erleichtern. Doch seit August sind nur 139 Karten an Nicht-EU-Ausländer übergeben worden.

Die zum August eingeführte sogenannte Blue Card lockt kaum qualifizierte Arbeitskräfte aus Nicht-EU-Staaten nach Deutschland. In den ersten beiden Monaten seien nur 139 Blue Cards vergeben worden, berichtete die „Welt am Sonntag“ unter Berufung auf Daten des zuständigen Bundesamts für Migration und Flüchtlinge. Der Präsident des Deutschen Industrie- und Handelskammertags, Heinrich Driftmann, sieht noch zu hohe Hürden für Fachkräfte.

Von den 139 vergebenen Karten gingen dem Bericht zufolge allein 112 an Ausländer, die bereits vor dem Jahr 2012 nach Deutschland eingereist waren. Sie hielten sich somit bereits mit einem anderen Aufenthaltstitel in der Bundesrepublik auf.

„Der Massenansturm von Fachkräften bleibt aus“

„Der Massenansturm von Fachkräften bleibt aus“, sagte Gunilla Fincke, Geschäftsführerin des Sachverständigenrats deutscher Stiftungen für Integration und Migration, der „WamS“. Deutschland eile nach wie vor der Ruf voraus, Zuwanderer seien nicht willkommen, obwohl das Zuwanderungsrecht liberaler geworden sei. „Deutschland wird als nicht so attraktiv wahrgenommen und ist auch wegen der Sprache schwierig“, sagte Fincke.

Driftmann kritisierte, das deutsche Zuwanderungsrecht sei „nach wie vor kompliziert und für ausländische Fachkräfte wenig transparent“. Deshalb sei es wichtig, im Ausland über die Zuwanderungsmöglichkeiten zu informieren sowie dort für Deutschland als Arbeits- und Studienort zu werben, sagte er.

Arbeitsagentur fordert mehr Werbung

Auch die Bundesagentur für Arbeit (BA) forderte ein intensiveres Werben um hoch qualifizierte Ausländer. Der zuständige BA-Vorstand Raimund Becker sagte der „Welt“, die Blue Card setze zwar erste gute Signale. Eine Gesetzesänderung allein reiche aber nicht, um Deutschland für ausländische Fachkräfte attraktiv zu machen.

Becker forderte ein „kluges Zuwanderungsmanagement“, etwa „in Form eines Punktesystems, ausgerichtet auf die Berufe, in denen es in absehbarer Zeit Engpässe oder sogar Mangelsituationen geben wird“. Zugleich warnte er davor, die Ausbildung von Fachkräften in Deutschland zu vernachlässigen.

Seit August erhalten qualifizierte Ausländer aus Nicht-EU-Staaten eine Blue Card als Aufenthaltserlaubnis, wenn sie ein Jahresgehalt von 44.800 Euro oder mehr vorweisen können. Für Berufe, in denen Fachkräfte gesucht werden, reicht ein jährliches Einkommen von 34.944 Euro. Ausländische Studenten dürfen neben dem Studium mehr arbeiten als bisher. Nach dem Abschluss haben sie zudem nun 18 statt vorher zwölf Monate Zeit, um sich einen Arbeitsplatz zu suchen.

Quelle: FAZ.net / AFP

http://www.faz.net/aktuell/wirtschaft/europas-schuldenkrise/spanien/arbeitskraefte-aus-dem-sueden-gut-dass-wir-die-spanier-haben-11964675.html

Arbeitskräfte aus dem Süden Gut, dass wir die Spanier haben

18.11.2012 · Motivierte Spanier lernen Deutsch für einen Arbeitsplatz - und zeigen Integrationswillen pur. Das ist gut für Deutschland. Denn die Arbeitslosen hier lassen sich nicht für jeden Job qualifizieren. Eine Analyse.

Von Sven Astheimer

© dpa Arbeiter bauen einen Messestand ab. Um spanische Arbeitskräfte zu finden, sind zwei hessische Minister sogar nach Spanien gefahren.

Auch die Krise im Euroraum produziert ihre Gewinner. Im Süden des Kontinents erleben die Goethe-Institute eine Nachfrage, wie es sie noch nicht gegeben hat. Vielerorts können neue Lehrer gar nicht so schnell eingestellt werden, wie die Kurse überbucht sind. Vor allem junge Spanier entwickeln eine ungekannte Lust am Erlernen der deutschen Sprache. Sie steht für die Hoffnung auf eine bessere (berufliche) Zukunft im Land von Goethe, Daimler und Bosch. Die Zuwanderungszahlen aus diesen Ländern steigen rasch, wenn auch von einem niedrigen Ausgangsniveau. Deutsche Arbeitgeber haben längst reagiert: Warben sie gestern noch auf Jobmessen in Magdeburg und Aachen um neues Personal, haben sie ihre Stände heute in Madrid und Athen aufgebaut. Ihre Botschaft lautet: Kommt nach Deutschland, wir brauchen euch!

Hierzulande wachsen ob solcher Signale die Sorgen; denn so mancher fühlt sich doch an die Anwerbepolitik des vergangenen Jahrhunderts erinnert, als mit ähnlichen Parolen Millionen Gastarbeiter ins Land gelockt wurden. An den Folgen einer misslungenen, weil zunächst nicht existenten Integrationspolitik leidet das Land bis heute: Ausländer sind doppelt so häufig arbeitslos wie Deutsche; Bürger mit Migrationshintergrund haben schlechtere Bildungsabschlüsse sowie Aufstiegschancen und so weiter.

Noch drei Millionen Arbeitslose - was bedeutet das?

Überhaupt gibt es in Deutschland noch immer offiziell drei Millionen, alles in allem mehr als vier Millionen Arbeitslose. Haben also nicht jene Politiker recht, die fordern, zunächst müsse das Potential in Deutschland ausgeschöpft werden, bevor die Suche jenseits der Grenzen fortgesetzt werde?

Nein, sie haben nicht recht. Denn das eine zu tun heißt nicht, das andere zu lassen. Ein Vorrang für Deutsche würde den falschen Eindruck erwecken, man könne jeden Erwerbslosen für jede offene Stelle qualifizieren. Bildung und Weiterbildung sind sicherlich zwei der Themen, die für die Entwicklung des deutschen Arbeitsmarkts und damit der Wirtschaft des Landes herausragende Bedeutung haben. Aber die Potentiale sind begrenzt. Ein jugendlicher Schulabbrecher kann seinen Abschluss nachholen und ein guter Facharbeiter werden - zum Ingenieur wird er es vermutlich nicht bringen. Ohne die nötigen sozialen Kompetenzen wird niemand eine Umschulung für Pflege- und Gesundheitsberufe durchhalten und seine Arbeit mit Hingabe verrichten können.

Deutschland braucht Fachkräfte aus dem Ausland

Deshalb ist Deutschland vor allem auf mittlere bis lange Sicht auch auf Fachkräfte aus dem Ausland angewiesen, will es seinen Wohlstand halten oder sogar mehren. In kaum einem anderen Land in Europa wird sich der demographische Wandel in den kommenden Jahrzehnten so stark auswirken wie in Deutschland. Schon bis zur Mitte des kommenden Jahrzehnts werden rund drei Millionen Arbeitskräfte weniger zur Verfügung stehen. Macht das Land weiter wie bisher, wird es nach Berechnungen der OECD stark an Wachstum einbüßen.

Um das zu verhindern, kann die Politik an mehreren Stellschrauben drehen. Zu den notwendigen Maßnahmen gehört auch eine - gesteuerte - Zuwanderung aus Nicht-EU-Ländern. Die Lehre aus dem vergangenen Jahrhundert lautet, dass die Qualifikation des Einzelnen und die Bedürfnisse des Arbeitsmarktes entscheidende Zugangskriterien darstellen. Denn ein Arbeitsplatz und ein stetes Einkommen sind die besten Garanten für eine gelungene Integration in die Gesellschaft. Von immenser Bedeutung, beruflich wie privat, sind dabei ausreichende Sprachkenntnisse.

Spanier, Griechen und Portugiesen dürfen ohnehin hier arbeiten

Das gilt auch für Hochqualifizierte: Ein Produktionsingenieur muss mit den Arbeitern genauso kommunizieren können wie ein Arzt mit seinen Patienten. In den vergangenen Jahren wurde einiges Richtiges auf den Weg gebracht. Im Zuge der Einführung der EU-Blue-Card sank der jährliche Mindestverdienst für qualifizierte Nicht-EU-Ausländer, die Anerkennung ausländischer Abschlüsse wurde vereinfacht, und Hochschulabsolventen aus Drittstaaten erhielten mehr Zeit für die Stellensuche. Die Debatte darüber, ob Deutschland sich noch stärker an klassischen Einwanderungsländern wie Kanada und Australien orientieren solle, dürfte spätestens im nächsten Aufschwung wieder aufleben.

Die aktuellen Wanderungsbewegungen aus Südeuropa sind jedoch anders gelagert. Denn Spanier, Griechen und Portugiesen dürfen sich ihren Arbeitsplatz in der Union ohnehin suchen. **Der grenzübergreifende Ausgleich von Angebot und Nachfrage bildet den Grundgedanken des gemeinsamen Arbeitsmarktes**. Dass davon alle Beteiligten profitieren, zeigt das Beispiel vieler **Polen**, die es nach dem EU-Beitritt Richtung Großbritannien und Irland zog, wo sie ihren Teil zum Wachstum beitrugen. Nach Ausbruch der Krise kehrten viele Polen in ihre Heimat zurück, die mittlerweile viel stärker geworden war.

Es ist wahrscheinlich, dass auch viele Südeuropäer irgendwann wieder die Koffer packen werden, wenn zu Hause die Konjunktur anzieht. Das dürfte allerdings frühestens in ein paar Jahren der Fall sein. Noch sind viele Kandidaten gar nicht in Deutschland angekommen, sondern drücken eifrig die Schulbank und büffeln Deutsch. Mehr Bereitschaft zur Eingliederung kann man eigentlich nicht zeigen.

Quelle: F.A.Z.

http://www.economist.com/news/special-report/21566236-france-needs-more-start-ups-and-mittelstand-firms-lack-enterprise

Business

A lack of enterprise

France needs more start-ups and Mittelstand firms

Nov 17th 2012 | from the print edition

One out, all out

AULNAY-SOUS-BOIS SOUNDS LIKE an idyllic rural spot, but in reality it consists mostly of ugly industrial estates clustered to the north of Paris, hard by Charles de Gaulle airport. It has been in the news of late because it is the site of a car factory that the owner, PSA Peugeot Citroën, plans to shut down. Earlier this year Mr Hollande described this plan as “unacceptable” and promised that it would not be allowed to go through. In the past Arnaud Montebourg, whom he appointed as minister for productive recovery within the finance ministry, has talked of banning what he calls “stockmarket-driven” redundancies, and even of expropriating companies that close factories.

Yet Peugeot has now confirmed that big losses and continuing overcapacity in the car industry are forcing it to close Aulnay-sous-Bois after all. It has offered the workers new jobs at another of its factories, in Poissy, to the west of Paris, the nearest of Peugeot’s five remaining ones. But most of the disgruntled men leaving work after the morning shift do not want to move. Philippe Julien, the local CGT representative, says his union would much prefer to divide the existing workload among all six factories. He and his colleagues feel let down by the Hollande government, for which most of them voted. In a play on the French for liar, they talk of Mr Menteurbourg. They are hoping for support from other workers, in the form of street protests and perhaps strikes.

Peugeot is not alone: Renault is also suffering from excess capacity. As if to demonstrate France’s competitiveness problem, this comes at a time when Volkswagen and other German carmakers are expanding. Even Britain, widely derided in France as a country that has almost completely deindustrialised, now has more car factories than France. Other French companies that are laying off workers, despite Mr Montebourg’s strictures, include ArcelorMittal, which is closing two of its blast furnaces at Florange in northern Lorraine, Air France, Bouygues Telecom, Doux, Hersant Media, Sanofi and SFR.

France still has plenty of successful, world-class multinationals in a wide variety of industries. They include such well-known names as Michelin (tyres), Pernod Ricard (drinks), LVMH (luxury goods), Carrefour (supermarkets), AXA (insurance) and L'Oréal (cosmetics), as well as two of the biggest banks in Europe, BNP Paribas and Société Générale. But lists such as these also reveal some problematic characteristics of corporate France.

One is that most French companies have been around for a long time. A second is that their profit margins have become much thinner. Gross operating profits for non-financial firms have fallen by six points over the past decade. In 2011 margins for companies outside the CAC-40 were at the lowest level for 25 years, whereas in Germany margins have been rising. A third is that many of the best French firms make most of their money abroad. That may explain why in the three years to 2010 the members of the CAC-40 increased their global employment by 5% but reduced employment in France by 4%.

Even so, many companies still succeed against the odds. Consider Valeo, one of the world's biggest car-parts companies. Jacques Aschenbroich, its chief executive, notes that his is a global industry, although competition is at its most intense at regional level. For Valeo that means Germany, which has gained an edge over France in the past ten years. Unsurprisingly Mr Aschenbroich says one of the biggest problems for companies in France are vertiginous social charges (see chart 3). The labour market is still too rigid, and he complains about the 35-hour week brought in by the Jospin government, not because he is against shorter hours in principle but because it replaced a 39-hour week without pay cuts to match. Yet he welcomes the R&D tax credit brought in by Mr Sarkozy and is optimistic about the chances for Mr Hollande's labour-market reforms.

Another company boss, Clara Gaymard, who runs the operations of America's General Electric in France, is also hopeful about labour-market reform. She describes Michel Sapin, the labour minister, as a good listener who approaches the issue without preconceptions. The need is pressing: as she points out, the present rules create legal obstacles that make it all but impossible to restructure a company. But GE has not given up in France, where it makes medical devices, turbines and aero engines.

Corporate France is strikingly short of two things. One is new companies, especially in high-tech and internet businesses. There are some, such as Free, a subsidiary of Iliad, a company that has established a grip on broadband services in France, much to the annoyance of the telecoms incumbents; or vente-privée, an internet retailer run by Jacques-Antoine Granjon. Yet Mr Granjon is gloomy about the future. He says the French system stifles entrepreneurs. He blames governments of right and left alike for disapproving of profits and wealth, for making clear their dislike of the rich, for favouring consumption over investment, for imposing excessive taxes on businesses and individuals and for pushing public spending too high. He is also scathing about France's educational system. His own three children are being taught abroad, as is common among French bosses.

If that is what French entrepreneurs think, it is little wonder that their country has proved bad at growing and cultivating new high-tech businesses. But, to be fair, the rest of Europe is little better when compared with America, apart from Scandinavia and a few other northern parts of the continent.

It is the second gap in corporate France that is both more striking and more worrying: the absence of mid-sized companies like Germany's *Mittelstand* firms, which form the backbone of the German economy. According to one estimate, France has just over 4,000 medium-sized enterprises, proportionately only half as many as Germany and Britain. And the average French company, with just 14 employees, is a lot smaller than the average German one, which has 41. (This point, along with others in this section, is made by Sophie Pedder, *The Economist*'s Paris correspondent, in her recent book, "Le Deni Français".)

Keeping small businesses down

One reason is that expansion of a business is vigorously discouraged by rules and taxes. Researchers at the London School of Economics found that France has a strikingly large number of companies with 49 employees. That is because many of the regulations governing companies kick in when a firm gets to 50. According to a 2008 official commission on growth chaired by Jacques Attali, once an adviser to Mitterrand, no fewer than 34 laws and regulations start to apply once an enterprise reaches that number.

Successive governments have tried to simplify the system, but generally without much success. The creation by Mr Sarkozy's government of *pôles d'emploi*, modelled on British jobcentres that had impressed his then finance minister, Christine Lagarde, has made it easier to combine drawing benefits with looking for work. Ms Lagarde, who is now managing director of the IMF, was also behind the creation of a system of "auto-entrepreneurs" under which individuals can register a business with a minimum of fuss and formality.

Mr Montebourg thinks these helpful gestures by previous governments are insufficient. Well to the left of his party and with a book attacking globalisation to his name, he challenges the assumption that further deindustrialisation is inevitable. Although he failed to stop Peugeot closing Aulnay-sous-Bois, he insists that "there is no industry that we have to give up." He claims to appeal to patriotism, not nationalism or protectionism, and harks back to models such as Franklin Roosevelt's National Industrial Recovery Act of 1933 and the Tennessee Valley Authority. He calls bankers "parasites" and hopes to use the government's new public investment bank to help save French manufacturing.

Manufacturing in France has fallen to only 11%of GDP, about the same as in Britain and far less than in Germany or Italy

Yet this seems a lost cause. Manufacturing in France has fallen to only 11% of GDP, about the same as in Britain and far less than in Germany or Italy. As governments of every stripe in many different countries have found, politicians who set out to pick winners often end up subsidising losers instead. The future ought to lie with services and smaller companies, to which the government pays rather less attention.

It would also be a good idea to encourage finance, even though the government has such a low opinion of banks. On the whole the French banks are in reasonable shape. None of the big ones has had to be bailed out by the state, although Société Générale has occasionally looked wobbly. Dexia, a Franco-Belgian bank, collapsed in 2011, and this year the Hollande government had to rescue a small mortgage lender, Crédit Immobilier de France (CIF).

Even so, the euro crisis and the downturn have not left the banks unscathed. French banks were among the most exposed to Mediterranean sovereign debt when the crisis broke. They have quietly reduced their exposure, but they are still potentially vulnerable on this score. And any fall in property prices could easily take down other mortgage lenders besides CIF.

http://www.economist.com/news/special-report/21566238-how-regain-competitiveness-doing-so-so

The economy

Doing so-so

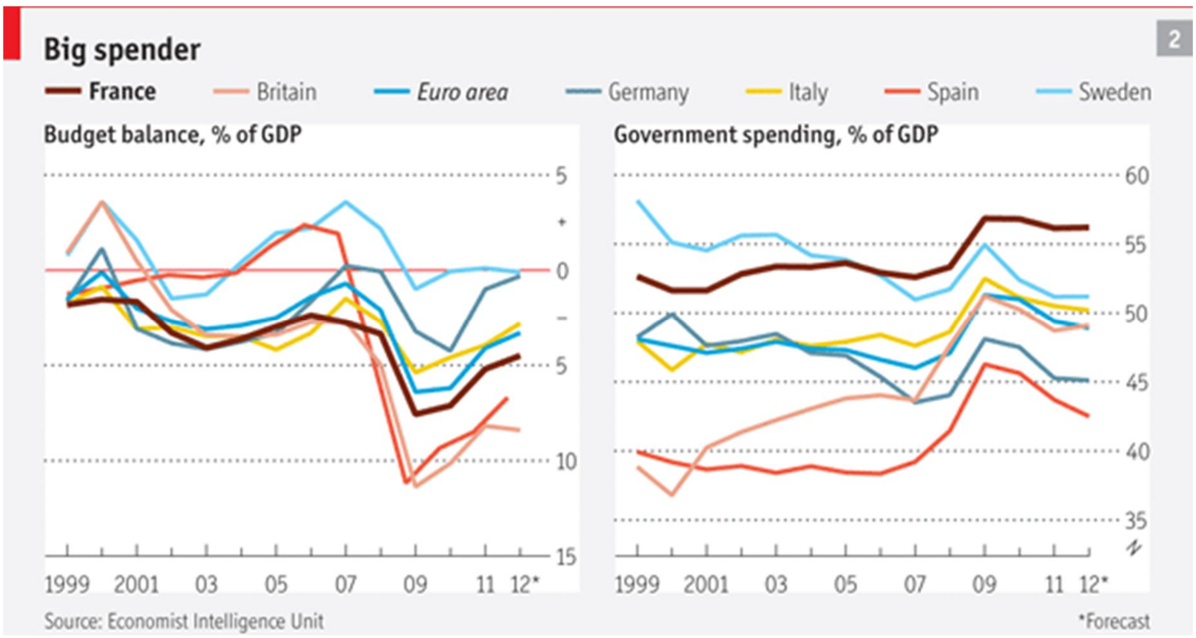
But how to regain competitiveness?

Nov 17th 2012 | from the print edition

SINCE THE EURO began life in 1999, the French economy has performed neither brilliantly nor disastrously but somewhere in between. It has certainly not done as well in recent years as Finland, Germany or (outside the euro) Sweden. But it has not sunk as far as Italy and Spain, let alone Greece, Ireland and Portugal. And it suffered far less in the 2008-09 financial crisis than Britain did. Within the euro zone, the country with perhaps the closest economic record to France's is the Netherlands, which has also lost competitiveness against Germany—but the Dutch still have a large current-account surplus.

In fact the French economy has been deteriorating for many years and this has simply become more obvious since the arrival of the euro, which precludes the tempting cure of devaluation. Ever since the end of the *trente glorieuses*, the 30 highly successful years after the second world war, France has come to rely heavily on public spending for growth. As Michel Pébereau, a banker, put it in a 2005 report on the public finances, "each time a new problem has arisen in the past 25 years, our country has responded with more spending." The budget has not been balanced in any single year since 1974.

Not all public spending is wasted. But it is striking that 15 years ago public spending as a proportion of GDP was at similar levels in France and Germany and much higher in Sweden, whereas now France's public spending, at almost 57% of GDP, is more than five points above Sweden's and almost ten points above Germany's (see chart 2). It is not obvious that French citizens reap commensurate extra benefits. France has 90 civil servants for every 1,000 inhabitants (compared with just 50 in Germany), which adds up to a huge 22% of the workforce, far above the European average. The only country to rival France's profligacy recently has been Britain, and there the state takes only just over 50% of GDP and the government is sharply cutting spending. It is hard not to conclude that the size of the French public sector has become a deadweight dragging down growth.



France also has a chronic unemployment problem. Only once in the past 20 years has the rate fallen below 8%; it is now over 10% and rising. Because of high social charges, burdensome labour-market regulation and the difficulty and cost of making workers redundant, big and small companies alike have been reluctant to create new jobs. The French like to boast of their high productivity, but this reflects not just efficiency but also an unwillingness to hire. In many French factories workers are notably thin on the ground. The Paris metro has begun to operate driverless trains, ostensibly to improve security and reliability but presumably also to save on costly and strike-prone labour. Even French vineyards are investing in expensive machines to replace human grape-pickers.

Still more worrying is the inexorable decline in the competitiveness of French industry, which has had a direct bearing on growth. The European Commission says that between 2005 and 2010 France's share of world exports shrank by almost 20%, a decline exceeded within the euro zone only by Greece. France's current account has deteriorated significantly. A decade ago it was in surplus; now it is showing the biggest deficit (in cash terms) of any euro-zone country. All the indicators show a marked loss of competitiveness, especially against Germany. France has dropped to 29th in the World Bank's "Doing Business" scorecard, and to 21st in the World Economic Forum's competitiveness rankings (badly trailing Germany, in 6th place, and Britain, 8th).

Mr Hollande and his new government initially seemed oblivious to all this, partly because France's borrowing costs have actually fallen since he came to power (and the bond spread over Germany has narrowed). The early measures that he pushed through a special session of parliament in July either did nothing to deal with the country's economic problems or actively made them worse. The partial rollback of the pension reform, cutting the retirement age from 62 to 60 for some workers, sent the wrong signal to the rest of the euro zone. So did the reversal of a measure introduced by Mr Sarkozy transferring some payroll charges to a new social value-added tax, which has the advantage of being charged on imports and consumption but not on exports and employment.

Perhaps worst of all was the new president's decision to impose a new top rate of income tax of 75% on annual incomes above €1m. The government has admitted that this will raise little money. Recently Mr Hollande has backed off a bit, calling it a temporary measure for two years only. Nicolas Baverez, an economist who often writes about French decline, describes the new rate as "absurd"; and Erik Izraelewicz, editor of *Le Monde*, a newspaper generally sympathetic to the left, calls it "purely political: it is Hollande's 35-hour week". When France's richest man, Bernard Arnault, announced in September that he was applying for Belgian citizenship, many blamed the proposed 75% rate (though Mr Arnault, who also left the country in 1981 when the Mitterrand government came in, insists that he will still pay his share of French taxes).

Gallant Gallois

By September ministers seemed to have woken up to the need for more radical action. Laurence Parisot, the boss of Medef, the main employers' federation, notes that in July Mr Hollande gave an unusually emollient speech at a conference of employers and unions, but his prime minister, Mr Ayrault, went back to business-bashing rhetoric. The Medef delegation refused to applaud. A chastened Mr Ayrault came to the organisation's summer school in late August and talked instead about recognising the challenges of business. The government also asked Louis Gallois, a businessman, to report on ways of improving competitiveness. Although it rejected his demand for a "competitiveness shock", it has promised to cut taxes on labour.

Pierre Moscovici, the finance minister, talks up the pressing need for labour-market reform to boost employment, stresses the importance of fiscal discipline and acknowledges the need to improve French competitiveness. As for the 75% tax rate, he insists that it is appropriate to get the rich to pay a bit more. He favours naming and shaming those who seem to be trying to avoid their fair share of taxes.

Mr Moscovici also suggests that public spending will decline over time, perhaps to 53% of GDP. In the government's first budget in late September two-thirds of the fiscal adjustment was to come from tax increases (roughly €10 billion on companies and €10 billion on individuals) and only one-third (another €10 billion) from spending cuts. But for 2013 and beyond Mr Moscovici is thinking of a 50-50 split. The effort needed will be considerable: in July the Cour des Comptes, the national auditor, put the gap for 2013 at €33 billion, and a lower growth forecast has made it even bigger. Mr Baverez is not alone in being sceptical that such a large adjustment will be possible, pointing out that the package is proportionately twice as big as the one that helped bring down Mr Chirac's first government.

The budget was greeted with some street protests but also with considerable anger by many French businessmen. Their gripe was not the 75% tax rate but big increases in taxes on corporate profits, capital gains, dividend payments and wealth. Many claimed that such tax hikes would simply drive entrepreneurs abroad. After a campaign by *les pigeons*, an entrepreneurial protest movement, the government has reduced its planned hike in capital-gain taxes.

It also claims to be serious about labour-market reform. Michel Sapin, the labour and social-affairs minister, was briefly finance minister under Mitterrand and understands what needs to be done. He notes that only one young worker in five can now expect to move from a temporary to a permanent contract, meaning that older "insiders" are being protected at the expense of younger "outsiders". He points to youth unemployment of up to 25% as a consequence. And he notes that, thanks to generous retirement terms and high social charges, France has an unusually low labour-force participation rate for 55- to 64-year-olds. All this, he concedes, impairs France's international competitiveness.

The government wants to negotiate with the unions and employers to make the labour market more flexible (Mr Hollande prefers the less neo-liberal "supple"). Mr Sapin is bringing in more subsidised job contracts, such as exempting older workers from social-security contributions if their employers also take on younger people on permanent contracts. He hopes to reduce payroll charges. The new labour-market rules, he says, would be good for both employers and workers. Yet they would still leave France with a more regulated market than many other countries in Europe, including Germany. And for all that, Mr Sapin may still find it hard to persuade the trade unions to accept the broad need for change.

Despite their reputation for militancy, the unions are fairly weak in France, with one of the lowest penetration rates in Europe. The second-biggest union, the CFDT, seems eager to reach an agreement with the government. Laurent Berger, its incoming leader, sees a trade-off between more flexibility for employers and more security for younger workers. He is willing to accept more part-time contracts and curbs on the freedom of sacked workers to sue in the courts, though at a price. Ms Parisot of Medef sees this as a crucial reform, noting that if changing circumstances force a firm to reduce its workforce, the risk of ending up in court represents not just a huge cost but a strong deterrent to hiring in the first place.

Mr Sapin insists that if there is no agreement the government will legislate anyway. Mr Hollande has brought forward the deadline to the end of this year. Yet even Mr Berger thinks it unlikely that all the unions will accept new labour laws by then. More probably his union will agree but the bigger and more militant CGT and the smaller Force Ouvrière will not. The stage may then be set for a wave of strikes next year against both labour-law reform and the government's public-spending cuts.

http://www.lemonde.fr/idees/article/2012/11/16/l-otan-levier-de-l-europe-de-la-defense_1791862_3232.html

L'OTAN, levier de l'Europe de la défense ?

LE MONDE | 16.11.2012 à 14h01 • Mis à jour le 16.11.2012 à 17h44

Que n'avait-on entendu, au printemps 2009, lorsque Nicolas Sarkozy avait officialisé la réintégration, par la France, de tous les organismes militaires de l'OTAN, dont le général de Gaulle avait claqué la porte en 1966 !

D'Alain Juppé à Lionel Jospin, de Dominique de Villepin à Laurent Fabius en passant par François Bayrou, bien des voix avaient, alors, déploré la liquidation de cet héritage gaulliste, depuis longtemps partagé par une bonne partie de la gauche. Ils déploraient ou dénonçaient un abandon de souveraineté et une *"dérive atlantiste"*.

Cette controverse est désormais close. François Hollande s'était gardé, durant la campagne présidentielle, d'évoquer un retour en arrière. Une fois élu, il a demandé à l'ancien ministre des affaires étrangères, Hubert Védrine, d'évaluer les bénéfices que la France avait ou pouvait tirer de cette réintégration dans le giron transatlantique.

La réponse, fournie dans un rapport remis au chef de l'Etat le 14 novembre, est d'autant plus claire qu'elle est formulée par un homme dont l'attachement au "gaullo-mitterrandisme" ne fait pas de doute. En effet, M. Védrine conclut que, si de Gaulle a eu raison en 1966, le monde a bien changé depuis. Les Etats-Unis, a fortiori avec la réélection de Barack Obama, ne sont plus les mêmes. Ils veulent aujourd'hui un *"partage du fardeau"* et demandent un rôle accru des Européens dans l'Alliance.

Pour l'ancien ministre, *"une (re) sortie française du commandement intégré n'est pas une option"*. La France n'aurait rien à y gagner. Et surtout pas la capacité a entraîner ses partenaires européens vers une meilleure prise de responsabilités face aux grands enjeux stratégiques. En revanche, le retour de la France dans l'OTAN n'a pas permis de faire progresser l'Europe de la défense, comme l'espérait M. Sarkozy.

M. Védrine prône donc une politique multiforme, pragmatique et décomplexée. Après tout, l'OTAN a été une boîte a outils bien utile aux Européens pendant la guerre de Libye. Les acquis, même faibles, de l'Europe de la défense ne doivent pas être négligés, pas plus que les coopérations *ad hoc*, au Sahel par exemple.

Car ce qui compte avant tout, c'est de *"(re) construire une vision stratégique commune à l'Union européenne"*, un réveil de l'esprit de défense, pour enrayer le risque de déclassement du Vieux Continent à l'heure des puissances émergentes et du basculement américain vers l'Asie.

On en est loin. Les budgets de défense sont comprimés par la crise. Les Allemands sont saisis d'*"inhibitions"* au plan militaire. Les pays d'Europe centrale craignent un désengagement américain. Aller de l'avant suppose d'en finir avec les chimères d'une Europe de la défense institutionnelle, irréalisable pour l'heure, et de se concentrer sur du concret, comme des projets industriels.

En attendant, l'Elysée a fait savoir que le président de la République *"approuve largement les conclusions"* du rapport Védrine. Le XXe siècle, décidément, est bien terminé.

http://www.nytimes.com/2012/11/18/business/privatizing-greece-slowly-but-not-surely.html?ref=europe

November 17, 2012

Privatizing Greece, Slowly but Not Surely

By LIZ ALDERMAN

THE government inspectors set out from Athens for what they thought was a pristine patch of coastline on the Ionian Sea. Their mission was to determine how much money that sun-kissed shore, owned by the Greek government, might sell for under a sweeping privatization program demanded by the nation's restive creditors.

What the inspectors found was 7,000 homes — none of which were supposed to be there. They had been thrown up without ever having been recorded in a land registry.

"If the government wanted to privatize here, they would have to bulldoze everything," says Makis Paraskevopoulos, the local mayor. "And that's never going to happen."

Athens agreed. It scratched the town, Katakolo, off a list of potential properties to sell. But as Greece redoubles its efforts to raise billions to cut its debt and stoke its economy, the situation in Katakolo illustrates the daunting hurdles ahead.

In the three years since the International Monetary Fund, the European Central Bank and the European Commission — the so-called troika of lenders — first required Greece to sell state assets, a mere 1.6 billion euros have been raised. Last Tuesday, European leaders said Greece needed an additional 15 billion euros in aid through 2014 to meet debt-reduction targets — partly because Athens has failed to make money on privatization.

Now, the troika may consider cutting an already lowered target for Greece to raise 19 billion euros by 2015 to about 10 billion euros as investors worry that Greece may have to leave the euro. The troika is requiring that Greece must still raise 50 billion through privatizations by 2022.

The I.M.F. estimates that those funds, should they materialize, will trim only up to 1 percent from Greece's debt, which is expected to rise to a staggering 189 percent of the nation's economic output in 2013, from 175 percent this year.

But with Greece's economy headed into its sixth year of recession, and unemployment at 25 percent, the nation's immediate goal is to lure any investment it can through long-term leases on state properties to create jobs and get money flowing into depleted public coffers.

"This could put the economy back in motion," says Andreas Taprantzis, the executive director of the Hellenic Republic Asset Development Fund, a new agency set up to hasten privatization. If investors develop land, restructure highways or build business parks, the activity would "help employment, which is a major issue for Greece," he says.

Indeed, privatization is one of the last hopes here for luring foreign cash.

Efforts stumbled anew last summer, when the government fell and two chaotic elections were held, amplifying fears of what is known in financial circles as a "Grexit" — a Greek exit from the euro. Investor confidence fell so low that a recent survey by the BDO consulting firm found that Greece was considered more risky for investment than Syria.

Yet as Prime Minister Antonis Samaras took steps last week to secure an additional 31.5 billion euros of bailout money from creditors, the thinking is that if one major asset can be sold now, investors will feel better about spending their money on Greece.

OFFICIALS are trotting out Greece's most tempting offer: OPAP, the highly profitable gambling company in which the government has a major stake. Its gambling agencies abound around Athens and in Greek villages. Last week, as the government went on a road show to China to drum up investor interest, eight bids landed, including one from a Chinese concern.

Still, Mr. Taprantzis's agency faces a daunting task. The idea of the country selling off its crown jewels touches a raw nerve here. Many Greeks say the government is buckling to decrees from the troika. Citizen protests have flared over nearly every state asset up for offer, including ones that have long bled cash — even if shedding them would help Greece's finances.

Others say the government is so desperate that prime assets will be sold too cheaply. In the case of OPAP, Greeks grumble about the government's logic in selling one of the few things that brings a steady stream of money to the treasury.

Given the culture of clientelism that pervades business dealings in Greece, others are concerned that properties will wind up in the hands of powerful Greek oligarchs who, these critics worry, may be waiting for an opportunity to get them at a cut-rate price.

Questions swirled after a huge Athens media center and shopping mall built for the 2004 Olympics by Spyros Latsis, one of Greece's wealthiest men, was put up for privatization. The government had initially leased the property, Golden Hall, to Mr. Latsis' Lamda Domi firm in a 2007 deal worth about 320 million euros over 40 years. But this year, as real estate values plummeted, Lamda won an open tender for a new 90-year lease, paying the government 81 million euros in exchange for maximum additional payments of 32.4 million euros over the life of the contract.

The Greek blogosphere lit up with accusations that the government handed an influential businessman a prime asset at a loss. Mr. Taprantzis called such criticism naïve, because it failed to account for the net present value of the leases.

Still, Daniel Sahl, the head of bilateral relations at the Federation of German Industry, says there is a pattern of Greek "princes" profiting on deals at the expense of the state. "The question is whether Greek society and the Greek government are really interested in privatization or not," says Mr. Sahl, who advocates handing the task to an outside body that would operate free from Greek political machinations.

"If they are not, they should be honest," he says. "But if they are, they should work to get as much as they can out of the assets."

THE agency's mandate is to clean up legal obstacles tied to the huge package of assets being offered for concession. About 15 percent of the portfolio is stakes in banks and utilities, as well as the national lottery.

The bulk, however, includes properties that would require years to develop and wouldn't generate significant cash flow instantly. Approximately 30 percent comprises ports, airports, motorways and other infrastructure. The vast remainder consists of real estate — from a former royal palace to the Athens police headquarters — and prime cuts of land. These include beaches on the vacation playgrounds of Rhodes and Corfu.

Interest is high. Six bids — including one from Lamda — have been submitted for a site on Rhodes alone.

But even if investors are persuaded to part with their money, the properties must still be cleared of a thicket of complications.

“The reality is that the assets that have been allocated to the fund are not conducive to privatization,” said a person who has been involved in the initiative and spoke on condition of anonymity, citing the sensitivity of the situation. “Nearly every one is fraught with problems.”

For instance, while investors are expected to commit equity, foreign banks remain wary of lending for deals in Greece. Some financing must come from Greek banks, which are now barely making loans. More than 85 percent of the aide tranche of 31.5 billion euros that Greece hopes to receive this month is needed to recapitalize Greek banks.

And many assets are encumbered with legal issues. In many cases, such problems must be resolved through government decrees or politically charged legislation. This month, Parliament squabbled over a privatization law revoking the condition that the state retain a minimum stake in utilities and ports.

The measure, which barely passed, cleared the way to privatize assets like Greece’s water utility. Yet even there, a new regulatory agency must be established, along with a public policy on how to price water.

The government owes the utility around 700 million euros in unpaid bills; when it will ever pay is unclear.

And then there is land: It is the bulk of the portfolio, and it comes with the biggest problems. Property registries are almost nonexistent in Greece, a curiosity that dates back to the Ottoman Empire. Ownership was almost never recorded, so investors could face potential lawsuits from people claiming land as theirs.

“Just imagine — the state doesn’t know exactly what real estate it really owns,” says George Katrougalos, a Greek constitutional lawyer who is currently a fellow at New York University. “It’s a legal mess.”

Worse still, Greeks built on state land probably while the government looked the other way. That was the situation that Mr. Taprantzis’s agency found in Katakolo, a once-verdant beachfront near ancient Olympia. in the Western Peloponnese, where thousands of people squatted on state land without paying for or registering the property.

Local politicians enabled the activity. For decades, on days when national elections were held, hundreds of people would throw up cinder-block houses literally overnight. In exchange, locals supported candidates who would not sanction them or force them to pay taxes on the construction. Electricity was eventually brought in through political favors, and little by little, a community was established.

“Politicians turned a blind eye in exchange for votes,” Christos Konstantopoulos, a spokesman for the mayor, said during a recent tour of the area.

The result: miles of beachfront property littered with the skeletons of shabbily built homes. Taxes went unpaid. Other homes had been spruced up over time, with porch swings, ornamental hedges and, in one case, a faux lighthouse with a small pool. “Everybody in town has a brother, a sister, an uncle or a cousin who lives here,” Mr. Konstantopoulos said, calling the situation disheartening. “But now we’re stuck with it.”

The state lost untold income, including that from unpaid taxes, although residents are now forced to pay a property tax through electricity bills. Still, the area is a lost cause for privatization, as far as Mr. Taprantzis’s agency is concerned.

NOW, the government is scrambling to set up an electronic land registry. It is a herculean task, though not insurmountable, Mr. Taprantzis says.

At Hellinikon, the old Athens airport site that is one of the largest land areas to be privatized in Europe, “the property is more or less clean,” says Spiros N. Pollalis, the head of the project and a professor at the Harvard school of design. Property disputes have been fast-tracked for resolution, and the concerns of locals who feared excessive development have been largely addressed, he says.

If all goes well, some investor will spend six billion euros on a huge urban landscaping project to turn the 1,500-acre site into a vast business hub and pedestrian area, Mr. Pollalis says. That could draw innovative companies and generate more than 20,000 high-paying jobs.

Mr. Pollalis hopes that developers will see things his way, even if their goal is to maximize profit.

“In Hellinikon, we need not only a partner but someone who understands the needs of the Greek people,” he says. “We do not want greed.”

That was a concern of locals in the Afandou beachfront area of Rhodes, which was founded as a refuge in an era when pirates roamed the Mediterranean. Like Katakolo, some parts of the land were squatted on — a problem that blocked four previous efforts at privatization. The agency is bent on clearing the land titles, but that requires a ruling by Greek courts, which can up to a decade to occur.

Local residents wanted the Afandou plot transformed into year-round, sports-theme vacation attractions. Some are now trying to block privatization for fear that investors will erect cheap hotels, bringing only low-paying jobs.

Nektarios Santorinios, a representative of the left-leaning Syriza party who is heading protests, contends that the state was so desperate that it was accepting about 50 euros per square meter, compared with an estimated market value of 180 euros. “They are trying to sell the gold of Rhodes in a fire sale,” he says. “Meanwhile, the money will just go into a black hole, which is the national debt.”

BACK in Athens, Mr. Taprantzis says the government understands that it needs to show Greeks that they have nothing to fear from privatization.

The process could be a breakthrough for Greece that clears away deep-seated problems like the one in Katakolo.

“The state is not the best businessman,” he says. “So privatization will be transformational in many respects.”

Although any transition would be painful for vested interests, Mr. Taprantzis says, “we’re discussing this as if Greece had another option.” He paused, then added, “I’m not sure another option is there.”

Dimitris Bounias contributed reporting.

http://www.nytimes.com/2012/11/18/opinion/sunday/europes-new-fascists.html?ref=global-home

November 17, 2012

Europe's New Fascists

By WILLIAM WHEELER

ONE evening in September 2011, Ali Rahimi, a 27-year-old Afghan asylum seeker, was hanging around with friends outside his building in central Athens when more than a dozen Greeks approached. Several men set upon Mr. Rahimi, one with a knife. Panicked, he fled into his apartment and fought back, managing to push the men out the door. He found blood gushing from just above his heart, one of five stab wounds in his back and chest.

Mr. Rahimi survived and is staying put for now. But his friend, Reza Mohammed, who was also injured in the attack, is considering what was once unthinkable: moving back to Afghanistan, which he feels would be safer than Greece.

Greece is the major entry point for Asian and African migrants and asylum seekers headed into Europe; there are about one million of them in the country today, thanks to the failure of successive Greek governments to establish a functioning migration or asylum policy, and a European Union regulation that allows member states to return asylum seekers to the country where they first entered Europe, which is often Greece.

Parts of Athens feel like a war zone. Racist gangs cruise the streets at night in search of victims. Themis Skordeli, a member of the group that is accused of stabbing Mr. Rahimi, ran unsuccessfully for Parliament on the ticket of Golden Dawn, a fascist group that is currently the third most popular party in Greece.

Golden Dawn was founded in 1985 under the order of the imprisoned leader of the Greek junta. The party entered the international spotlight after some of its members reportedly participated in the 1995 Srebrenica massacre of Bosnian Muslims. Its publication praises the Third Reich and often features photographs of Hitler and other Nazis.

By exploiting a security void and rising xenophobia, the party won a seat on the Athens City Council in 2010. In Greece's election earlier this year, the party capitalized on widespread anti-immigrant sentiment and contempt for a political establishment that brought the country to the brink of economic collapse. It won almost 7 percent of the national vote and 18 seats in Parliament.

Recent polls show that its strength continues to grow, and its support runs as high as 50 percent among police officers, who routinely fail to investigate growing numbers of hate crimes.

Far-right ultranationalist groups are exploiting old enmities and new fears across the Continent. Although this is not the Europe of the 1930s, the disillusioned citizens of countries like Greece and Hungary have turned increasingly to simple answers, electing parties that blame familiar scapegoats — Jews, Gypsies, gays and foreigners — for their ills.

What's at stake is the health of European democracy, and the values and institutions on which it rests. But while the euro crisis touched off a scramble to halt a financial meltdown, European leaders have done virtually nothing to reverse the union's dangerous political trends.

Beneath the looming basilica of Athens' largest church, middle-aged men and women in black Golden Dawn T-shirts were busy one bright September morning distributing food to needy Greeks. Kids ran across the courtyard, which was painted with the party's unofficial platform: "Get foreigners out of Greece." Clusters of fit, stoic young men in dark glasses ringed the perimeter.

Nikolaos Michos, a square-jawed Golden Dawn member of Parliament with the build and tattoos of a heavyweight boxer, leaned against a bloodmobile watching. He wore a black polo embossed with the party's

Swastika-like logo. “We’re fighters and we’re not going to back down,” he said, referring to death threats from leftists and the burning of a Golden Dawn office. “But they’re not striking fear into us because every center they destroy, we’ll build new ones,” he added.

Maria Chandraki, 29, an unemployed beautician, hadn’t heard of Golden Dawn until the last election. “Their positions may be extreme,” she said, holding plastic bags of food she’d just received. “But the situation is extreme as well. So we need extreme measures.” She went on, “We can’t have so many nations and so many different sets of values and ideals under the same roof.”

A few blocks down the street, a crowd was leaving a mosque after Friday Prayer. At the mention of Golden Dawn, immigrant men began lifting their shirts to show their scars. A short, sullen-looking young man with a cut across his nose and freshly sutured cheekbone, was pushed forward by the crowd. Just the night before, he said, he was beaten and cut with a knife by “fascists.”

“Go into the Omonia police station,” said another man. “You will see how violence is going on.” Several blocks away, I walked into just such a scene. As I stepped out of the elevator at the police station, I saw an officer screaming at a black man and backhanding him hard across the shoulder.

NIKOS KATAPODIS, 69, can see the crossroads where his family has lived since 1863. A bald, chain-smoking funeral-home owner, Mr. Katapodis describes the Greek government with a string of expletives. The flood of immigrants over the last decade created ghettos in central Athens, he explains. Crime rates rose, property values dropped and bars appeared on second-floor windows. “It looks like a prison,” he said, nodding to the street. “Today it reminds me of the late 1940s,” he adds. “You see people scrounging for food in the trash cans.”

Although he didn’t vote for Golden Dawn, he sees it as “the only party that is actually doing things for the Greek people” — a cross between the welfare state and the Mafia. If he needed an escort to walk down the street or help paying for his cancer medicine, he’d call Golden Dawn. “They’re doing what the politicians should be doing,” he said. “There’s a hole, and they fill it.”

Authoritarian elements in the Greek government have a history of using far-right groups to outsource political violence against critics. Recent moves to rein in Golden Dawn came only after it grew too powerful to control and the state felt its own authority was challenged, explained Anastassia Tsoukala, a legal scholar. “They were bitten by their own snake,” she said. And Greece is not alone. Golden Dawn’s rise has parallels across Europe, and its significance should be of Continental concern.

IN September, I sat in a Budapest courthouse as four men with tattoos and shaved heads filed past in handcuffs. Called the Death Squad, the men were charged with six murders during a wave of attacks against the country’s Roma minority, including one in which the attackers tossed a Molotov cocktail at a house and then gunned down a father and his 5-year-old son as they tried to escape the flames.

In the wake of the Death Squad murders, Kristof Domina founded the Athena Institute to monitor European extremist groups. The Budapest-based institute’s Web site features a map of 114 extremist groups active in 13 European countries. Although there are reports that these groups communicate and sometimes travel across the Continent in search of weapons or training, the problem hasn’t been dealt with at a Pan-European level.

Unlike Greece, Hungary has a history of fascist groups, including the Hungarian National Front, an anti-Semitic, anti-Roma group that established an annual international neo-Nazi event and regularly holds paramilitary training exercises on a former Soviet military base (“an incubator for the Breivik-type people,” says Mr. Domina, referring to the Norwegian mass murderer Anders Behring Breivik). Since Hungary’s economic crisis began, new extremist groups have emerged and the Hungarian National Front has gained national prominence.

In 2009, Jobbik, a self-described “radically patriotic Christian party” with an affiliated militia, entered Hungary’s Parliament. To rally its base, the party often relies on hate marches and intimidation campaigns that stoke racist fervor.

While Jobbik has traditionally tried to distance itself from more extreme groups, its true colors were on display at an August rally in the village of Devecser, where a Jobbik member of Parliament delivered the opening address. Subsequent speeches from other groups grew increasingly violent, climaxing in a tirade about “how the Roma people have to die and you have to kill them and we have to clean out the country,” as one witness recalled. The crowd eventually began throwing stones at Roma houses, chanting “you will die” and vowing to return.

Hungary’s ruling center-right party, Fidesz, is eager to win back some far-right voters it lost to Jobbik, so it won’t push back. Since being elected in 2010, Fidesz has pursued its own campaign of democratic rollback. Gerrymandered election districts, centralized control over the courts and the press and a new Constitution that dismantles checks and balances have caused discomfort in Brussels. In February, European Commissioner Neelie Kroes threatened to initiate proceedings that could strip Hungary of its European Union voting rights due to its controversial media laws. But that hasn’t happened yet — most likely because Brussels lacks enforcement mechanisms short of this “nuclear option.”

European leaders must not cede the battleground in the war of ideas. They should publicly denounce parties that espouse racist doctrines and spew hate-filled rhetoric and clearly define and defend the shared values of an increasingly integrated Europe.

To do so, they must develop a Pan-European approach to monitoring hate crimes and investigating right-wing extremist networks that operate across borders. And the European Union must ensure that all member states, old and new, respect the same criteria that countries currently aspiring to join the European Union are required to meet, especially maintaining the “stability of institutions guaranteeing democracy, the rule of law, human rights, respect for and protection of minorities.” Otherwise, Europe faces the specter of more xenophobic violence and the unraveling of the liberal democratic order that has drawn so many persecuted people to seek asylum and opportunity on European shores.

In Athens, Sayd Jafari owns a cafe frequented by fellow Afghans. It has been repeatedly ransacked by mobs of black-clad attackers wielding sticks, chains and knives and performing fascist salutes.

Like others who have been assaulted, Mr. Jafari is also contemplating returning home to Afghanistan. “There, maybe someone has a bomb hidden on his body that he detonates,” he says. “Here, you don’t see where the knife that kills you comes from.”

A freelance journalist. His reporting was supported by a grant from the Pulitzer Center on Crisis Reporting.

Letters to The Economist

la.výritý Nov 16th, 21:35

Some French (and other GIIPS) posters keep claiming that Germany has a strong economy "... only because of a euro that is 30% less high than a deutschmark would be” (MC). Others asserted that “without the euro Germany is doomed”.

So let’s look closer into these arguments.

As far as I follow the dollar/euro rate, I noticed that merely the ECB’s massive QE influenced the exchange rate somewhat. Financial experts, by majority, are of the opinion that Germany's economic strength and fiscal reliability is already prized in the euro, since none of the troubled GIIPS countries' horror 'cover news' could so far influence the euro's exchange value negatively. If this would be the case, the Europeans would use their printed money as cheap toilet paper already. Thus, a new deutschmark would pretty much carry the same (adjusted) face value against the dollar as the euro does now.

Another issue is that a ‘rump euro’, if Germany leaves the common currency, would most likely devaluate dramatically against a new deutschmark and against the dollar. But this would make not only German consumer goods but almost all imports, including oil and gas, unaffordable to ‘rump euro’ consumers. On the other hand, it is doubtful that this would have much effect on the export ability of Germany’s high-quality manufactures, since they find their customers in the high-tech markets worldwide. Especially their capital goods are sold globally (often to governments), regardless of the general wealth level of that country.

FT columnist Martin Wolf asserted not long ago in one of his FT columns, “Germany is the world’s foremost exporter of very high-quality manufactures”, by which he meant that the demand for its goods is highly inelastic of pricing. "If you want a high-precision medical-equipment component, or high-end music-production software, you want what the Germans are selling, and, you’ll pay whatever they’re charging" (within reason I might add).

State-of-the-art optical components, luxury cars and expensive machine tools aren’t ‘olives’. They are not bought by people who have to watch their pennies.

But what would be the consequence for France and the GIIPS? - They would face the same problems that led their governments pushing for a joint currency with Germany in the first place.

Fearing further devaluation, investors would pull out of French and other ‘rump euro’ government bonds, in order to tap the markets, the FIGIPS would need to borrow in forex again, in deutschmarks or in dollars; the need to import commodities (Europe has almost no natural resources) would lead to a drainage of the already sparse forex reserves, causing some ‘rump euro’ governments to default.

Germany, on the other hand, would do what it has always done: concentrate on quality that people are willing to pay for, rationalize production, keep wages competitive, concentrating on northern and eastern Europe, China, India and the US rather than the Mediterranean basket cases.

After a couple of hard years, Germany would be back, leaner, meaner and more successful than before.

http://www.ifop.com/?option=com_publication&type=poll&id=2028

Sondage 25.10.2012

AVEC: LE FIGARO

L’image de l’Islam en France

Le sondage Ifop pour Le Figaro révèle la dégradation de l’image de l’islam en France. Aux yeux de 69% des Français, la société est suffisamment ouverte et accueillante vis-à-vis des musulmans. Pourtant, 60% des interviewés considèrent que l’influence et la visibilité de l’islam en France sont aujourd’hui trop importantes, contre 55% il y a deux ans. 43% des Français jugent par ailleurs aujourd’hui que la présence d’une communauté musulmane en France est une menace pour l’identité de notre pays, 17% considérant à l’inverse qu’elle est un facteur d’enrichissement. Un tiers des Français (33%) estime néanmoins que les musulmans sont bien intégrés dans la société française. Cette perception évolue peu, puisque 32% partageaient cet avis en 2010. Les Français associent ces problèmes d’intégration à un refus des personnes concernées de s’intégrer (68%, +7 points en deux ans) ainsi qu’aux différences culturelles (52%, +12). Ils regrettent également que les musulmans soient regroupées dans certains quartiers (47%, +10) et que les difficultés économiques et le manque de travail (25%) entravent cette intégration. On note ensuite que 18% des Français se disent favorables à l’édification de mosquées en France lorsque les croyants le demandent (contre 33% en 1989 et 20% en 2010), 43% y étant opposés (39% en 2010) et 34% indifférents. Parmi les autres enseignements de l’enquête, on note que 68% des Français sont hostiles à l’existence de partis politiques ou de syndicats se référant à l’islam (ce score s’établissant au même niveau qu’en 1989). Enfin, signe que les mentalités évoluent, 45% des interviewés sont défavorables à l’élection d’un maire musulman dans la commune où ils habitent, contre 63% en 1989.

Echantillon de 1736 personnes, représentatif de la population française âgée de 18 ans et plus.

La représentativité de l'échantillon a été assurée par la méthode des quotas (sexe, âge, profession de la personne interrogée) après stratification par région et catégorie d’agglomération. Les interviews ont eu lieu par questionnaire auto-administré en ligne (CAWI - Computer Assisted Web Interviewing) du 15 au 18 octobre 2012.

Télécharger les résultats de l'étude (pdf, 1597 ko) http://www.nytimes.com/2012/11/17/opinion/john-vinocur-racism-in-france.html?ref=global-home&_r=0

November 16, 2012

French Estrangements

By JOHN VINOCUR

Paris

A FEW weeks ago, an esteemed civil rights organization asserted that anti-white racism has become a fact of French life.

The International League Against Racism and Anti-Semitism said that this did not involve specific discrimination of the kind confronted by Arabs and blacks, but held that anti-white racism "exists, and there are no taboos or hesitation about saying so."

The organization has become a co-plaintiff in an apparently racially motivated aggravated assault case involving an attack on a white male. According to press reports, the suspect was shown on a video surveillance tape wielding a broken bottle and shouting, "Dirty white, dirty Frenchman," in French and Arabic.

"Today," wrote Pierre-André Taguieff, a sociologist and historian, "in certain 'difficult neighborhoods,' so-called poor whites are the primary victims of a majority of so-called poor non-whites. The rejection of whites is, in turn, encouraged by Islamist propaganda that is hostile to Muslims' integration."

Obviously, the majority white population in France is not under siege. And the Muslims here (an estimated five million people, including citizens and the country's largest immigrant group) continue to face various forms of prejudice and exclusion.

But the anti-racism league's stance gives substance to an intensifying antagonism at the heart of French society from years of failed integration — and to what is seen by large segments of French society as Muslim unwillingness to accommodate the law, customs and lifestyle of the majority.

A survey published Oct. 25 by the Ifop polling organization underscores the clash. It reported that 60 percent of the French consider that "the influence and visibility of Islam in France" is too great, 68 percent believe that Muslims' nonintegration is their own fault, and that refusal of Western values, fanaticism and submission are the words that best correspond to the idea they have of Islam.

With the possibility of France entering recession next year, and alongside recent cases of murder and alleged plots by Muslim extremists, this amounts to real grief and tension.

Despairingly, both are compounded by the incapacity of successive governments to deal with the Muslims' role in France with anything like decisive engagement.

First, no president here has ever made a priority of massive investment — call it high dosage affirmative action — in the newcomers' future education and employment.

Second, no leader has ever sought to enforce specific standards for Muslim assimilation.

Those standards are not a vague, nonintuitive notion in France. They correspond to the secular character of the French republic, which promises freedom of religion for all, but also demands a complete absence of religion from the activities of the state — and bars the insertion of religion by anyone into those activities.

Franz-Olivier Giesbert, editor of Le Point, a center-right newsweekly, has written of Islam moving into segments of civil society, such as its hospitals, school programs and prisons, because there is no adequate defense of the French secular model. “Such is the state of our national exhaustion and procrastination,” he wrote.

By rejecting affirmative action and not drawing clear redlines for assimilation, such procrastination places enormous negative weight on the prospect for profound change. For French politics, a real turnabout would mean leaving behind the usual petty left-right dart-throwing on immigration, and moving ahead with the formation of a near-miraculous national alliance of Socialists and conservatives to enforce a new direction.

These days, President François Hollande’s actions can be summed up by his statement of contrition about colonial France’s murderous treatment of Algerians. That’s the politics of gesture and routine, balanced out by announcements like one noting that the pace of expulsions of illegal immigrants is now ahead of last year’s — public relations not just incidentally aimed at looking tough for what’s left of the Socialists’ white working-class constituency.

Coming on top of greater Muslim alienation and more complaints about Islam from the white majority, the current government effort is the rough equivalent of the denial that often has been the reflexive response to issues involving everyday racism here since the end of French colonialism in the 1960s.

Clearly, mumbling that the automatic equality attached to French citizenship and the fairness of French society are sufficient guarantees for Muslim integration is a dead incantation in 2012.

It’s hard to be optimistic about France buying or charming back an estranged community that in some neighborhoods lives life as a partially parallel society. Many Muslims might ask, Why should I accept the values of the republic when I believe they function mostly in theory?

An extensive affirmative action program, with clear school and job entry quotas might work, but it cannot come now without an accommodating and assimilating new face offered as a quid pro quo from the Muslim side.

Manuel Valls, the Socialist interior minister, touched recently on a unhappy piece of complementary reality.

He said, “We know what the cost can be to a democratic society when an economic crisis mixes with a crisis of identity. ... It can lead to a rejection — a deep current that carries everyone away.”

In this France, it’s late in the day for dikes.

http://www.spiegel.de/international/business/playing-poker-with-trillions-a-prison-of-debt-on-both-sides-of-the-atlantic-a-867404.html

SPIEGEL ONLINE

11/16/2012 06:36 PM

Betting with Trillions

Prison of Debt Paralyzes West

By Cordt Schnibben

Be it the United States or the European Union, **most Western countries are so highly indebted today that the markets have a greater say in their policies than the people**. Why are democratic countries so pathetic when it comes to managing their money sustainably?

In the midst of this confusing crisis, which has already lasted more than five years, former German Chancellor Helmut Schmidt addressed the question of who had "gotten almost the entire world into so much trouble." The longer the search for answers lasted, the more disconcerting the questions arising from the answers became. Is it possible that we are not experiencing a crisis, but rather a transformation of our economic system that feels like an unending crisis, and that waiting for it to end is hopeless? Is it possible that we are waiting for the world to conform to our worldview once again, but that it would be smarter to adjust our worldview to conform to the world? Is it possible that financial markets will never become servants of the markets for goods again? Is it possible that Western countries can no longer get rid of their debt, because democracies can't manage money? And is it possible that even Helmut Schmidt ought to be saying to himself: I too am responsible for getting the world into a fix?

The most romantic Hollywood movie about the financial crisis isn't "Wall Street" or "Margin Call," but the 1995 film "Die Hard: With a Vengeance." In the film, an officer with the East German intelligence agency, the Stasi, steals the gold reserves of the Western world from the basement of the Federal Reserve Bank of New York and supposedly sinks them into the Hudson River. Bruce Willis hunts down the culprit and rescues the 550,000 bars of gold, which, until the early 1970s, were essentially the foundation on which confidence in all the currencies of the Western world was built.

Creating Money out of Thin Air

Until 1971, gold was the benchmark of the US dollar, with one ounce of pure gold corresponding to $35, and the dollar was the fixed benchmark of all Western currencies. But when the United States began to need more and more dollars for the Vietnam War, and the global economy grew so quickly that using gold as a benchmark became a constraint, countries abandoned the system of fixed exchange rates. A new phase of the global economy began, and **two processes were set in motion**: **the liberation of the financial markets from limited money supplies, which was mostly beneficial; and the liberation of countries from limited revenues, which was mostly detrimental.** This money bubble continued to inflate for four decades, as central banks were able to create money out of thin air, banks were able to provide seemingly unlimited credit, and consumers and governments were able to go into debt without restraint.

This continued until **the biggest credit bubble in history** began to burst: first in the United States, because banks had bundled the mortgages of millions of Americans, whose only asset was a house bought on credit, into worthless securities; then around the globe, because banks had foisted these securities onto customers in many countries; and, finally, when these banks began to totter, debt-ridden countries turned private debt into public debt until they too began to totter, and could only borrow money from banks at even higher interest rates than before.

At the moment, the world has only one approach to getting out of this labyrinth of debt: incurring trillions of even more debt.

What does all of this have to do with Bruce Willis and Helmut Schmidt? Willis rescued the world's gold and, with it, the illusion of the good, old world. **Schmidt, as Germany's finance minister in the 1970s, set the debt spiral in motion and fueled the illusion in Germany that countries could go into debt, and that this was good for everyone.**

When Schmidt's predecessor, **Karl Schiller**, resigned from the government in protest over 4 billion deutsche marks in new debt, he said: "I am not willing to support a policy that creates the impression, to outsiders, that the government pursues the motto: After us comes the deluge."

Schmidt incurred 10 billion deutsche marks in new debt. Inspired by crisis economist **John Maynard Keynes**, the German government believed that economic stimulus programs would stimulate growth, but only under the condition that the debt was to be brought down again in better times.

This economic policy was known in Germany as "global regulation." As finance minister, and later as chancellor, Schmidt took advantage of the oil crisis to drive up the government deficit with economic stimulus programs. When Schmidt stepped down in 1982, annual government spending tripled in comparison to spending in 1970, reaching the equivalent of €126 billion ($161 billion), and the public debt increased fivefold, to €313 billion. By today, the combined debt of federal, state and local governments has climbed to more than €2 trillion.

A Human Debt Gene?

From today's perspective -- leaving aside all the effusive rhetoric about Europe **-- the introduction of the euro is nothing but the continuation of debt mania with more audacious methods. The euro countries took advantage of the favorable interest rates offered by the common currency to get into even more debt**.

Can all of this be blamed on some sort of human debt gene? Is it wastefulness, stupidity or an error in the system? There are **two views on how the government should use its budgets to influence the economy**: **the theory of demand, established by Keynes**, advocates creating debt-financed government demand, which in turn generates private demand and produces government revenues. In other words, building a road provides construction workers with wages. They pay taxes, and they also use their wages to buy furniture, which in turn provides furniture makers with income, and so on.

The other view, **supply-side economics**, is based on the assumption that economic growth is determined by the underlying conditions for companies, whose investment activity depends on high earnings, low wages and low taxes. According to this theory, the government encourages growth through lower tax rates. In the last few decades, the frequent transitions of power in Western countries between politicians who support supply-side economics (conservatives, libertarians and now some center-left social democrats) and those who advocate Keynesian economics (social democrats) has driven up government debt. When some politicians came into power, they reduced government revenues, and when they were replaced by those of the opposite persuasion, spending went up. Some did both.

When the debts of companies and private households are added to the public debt, **the sum of all debt** has grown at twice the rate of economic output since 1985, and it **is now three times the size of the gross world product**. The developed economies apparently need credit-financed demand to continue to grow, and they need consumers, companies and governments that go into debt and put off the financing of their demand until some time in the future. Of its own accord, this economic system produces the compulsion to drive up the debt of public and private households.

Governments delegate power and creative force to the markets, in the hope of reaping growth and employment, thereby expanding the financial latitude of policymakers**. Government budgets that were built on debt continued to create the illusion of power, until the markets exerted their power through interest.**

Interest spending is now the third-largest item in Germany's federal budget, and one in three German municipalities is no longer able to amortize its debt on its own steam. In the United States, the national debt has grown in the last four years from $10 trillion to more than $16 trillion, as more and more municipalities file for bankruptcy. In Greece, Spain and Italy, the bond markets now indirectly affect pensions, positions provided for in budgets and wages.

A country isn't a business, even though there are politicians who like to treat their voters as if they were employees. Politics is the art of mediating between the political and economic markets, convincing parliaments and citizens that economic policy promotes their prosperity and the common good, and convincing markets and investors that nations cannot be managed in as profit-oriented a way as companies.

After four years of financial crisis, this balance between democracy and the market has been destroyed. On the one hand, governments' massive intervention to rescue the banks and markets has only exacerbated the fundamental problem of legitimization that haunts governments in a democracy**. The usual accusation is that the rich are protected while the poor are bled dry**. Rarely has it been as roundly confirmed as during the first phase of the financial crisis, when homeowners deeply in debt lost the roof over their heads, while banks, which had gambled with their mortgages, remained in business thanks to taxpayer money.

In the second phase of the crisis, after countries were forced to borrow additional trillions to stabilize the financial markets**, the governments' dependency on the financial markets grew to such an extent that the conflict between the market and democracy is now being fought in the open:** on the streets of Athens and Madrid, on German TV talk shows, at summit meetings and in election campaigns. The floodlights of democracy are now directed **at the financial markets, which are really nothing but a silent web of billions of transactions a day.** Every twitch is analyzed, feared, cheered or condemned, and the actions of politicians are judged by whether they benefit or harm the markets.

The attempt by countries to bolster the faltering financial system has in fact increased their dependency on the financial markets to such an extent that **their policies are now shaped by two sovereigns: the people and creditors.** Creditors and investors demand debt reduction and the prospect of growth, while the people, who want work and prosperity, are noticing that their politicians are now paying more attention to creditors. The power of the street is no match for the power of interest. **As a result, the financial crisis has turned into a crisis of democracy, one that can become much more existential than any financial crisis.**

An Unequal Battle

The one sovereign stalks the other, while the pressure of the markets contends with the pressure of the street. In Europe, in particular, this has become an unequal battle. **Since Jan. 14, 2009, when Standard & Poor's downgraded Greek government bonds, the markets have determined the direction and pace of European integration**. They want bigger and bigger bailout funds, they want to safeguard their claims, they want a European Central Bank that buys up government bonds indefinitely, they want slashed government budgets, they want labor market reforms like the ones in Germany, they want wage cuts such as those in Germany and, at the same time, they want these incapacitated countries mired in recession to offer the prospect of healthy growth.

And this is happening in a Europe in which the sovereign nations don't truly know how much Europe they really want. The people who govern Europe don't know either, which puts them at the mercy of the markets. They have no common model for Europe, and they suspend the most basic democratic ground rules to remain capable of acting. **They have to use tricks and bend agreements to prevent the euro from breaking apart.**

The gulf between those who govern and those who are governed, a problem in any democracy, is **complicated in Europe by the mistrust between Europeans** and bodies that seek to tame the crisis in their name.

The actions of governments also generate mistrust. **The German government, in particular, has more confidence in the markets than in the governments of Europe's crisis-ridden countries, and it finds the power of interest rates more convincing than promises of reform.** Mistrust also stems from the relationship between governments and their voters, so much so that it's become common to delay important decisions until after elections and to keep them out of campaigns. **There isn't much confidence in the economic judgment of the people**. If lawmakers can hardly understand which bailout funds they are voting for, how many billions they are pushing in which direction, how great the risk of inflation is, what terms like target, derivative, leverage and securitization mean, how much can citizens be expected to comprehend? **A citizen who hopes to understand the underlying problems of the euro crisis would, at the very least, have to read the business sections of major German newspapers like the *Süddeutsche Zeitung* or the *Frankfurter Allgemeine Zeitung* every day**. Watching one talk show a week isn't enough.

Even Good Debt Needs to Be Serviced

The democratic decision-making process reaches its limits in this fundamental crisis, but even in the decades when debt was being accumulated, it was clear that democracies have a troubled relationship with money.

There was always justification for new debt. The catchphrases included things like more jobs, better education and social equality, and the next election was always around the corner. Debt was justified at the communal level to expand bus service or build playgrounds, at the state level to hire more teachers or build bypasses and, at the federal level, to buy tanks and fund economic stimulus programs.

There is good debt and bad debt, but even good debt needs to be serviced constantly. A closer look at which countries acquire and pay off debt, and to what degree, reveals unsettling correlations: The more often governments change and the more pluralistic they are, the faster the debt increases and the more difficult it becomes to pay if off. **The more democracy, the looser the money**. **The only place money gets even looser is in dictatorships.**

To hold an administration responsible for the debts of its predecessors**, there are debt limits in democracies**. In Helmut Schmidt's day, for example, there was a provision in the German constitution stipulating that total debt could not exceed total investment. In Europe, the provisions of the **Maastricht Treaty**, which is aimed at ensuring the stability of the common **currency, limit the amount of debt a government can accumulate to no more than 60** percent of gross domestic product.

Debt Limits Have Never Worked

So far, such debt limits have never worked in any country**. Under new laws in Germany, the federal government, starting in 2016, will only be allowed to incur new debt amounting to 0.35 percent of GDP**. The euro countries have agreed to a similar rule, but it can only take effect if all national parliaments agree.

In some countries, there are already sparks of resistance against the limitation of new debt. The Italian government refuses to implement austerity measures demanded by the ECB and to approve a clause stipulating automatic spending cuts. After mass protests, the Portuguese government reversed cuts that had already been announced. Spain will fall short of an agreed deficit target of 6.3 percent, with its deficit actually predicted to come in at 7.4 percent. **Euro-zone countries are in fact not allowed to incur new debt of more than 3 percent of GDP.**

(Austerity and recession) What makes those hoping to clean up budgets in the crisis-ridden countries skeptical is the downward spiral triggered by such drastic budget cuts, structural reforms and wage reductions. Private and public demand is sinking while the economy shrinks, leading to higher unemployment, less government revenue and higher debt. In Spain, after four austerity packages, the unemployment rate has increased from 8 percent in early 2007 to 25.8 percent today, while the country's debt ratio has doubled. In Portugal, unemployment has gone up by close to 100 percent in four years, with the debt ratio increasing from 72 to 114 percent. In Greece, after budget cuts amounting to more than 10 percent of the country's total economic output, unemployment has almost tripled and the debt ratio has risen from 113 to 160 percent.

These horrific numbers are not just driving people into the streets, but are also creating conflicts between politicians and economists. **There it is again, the old dispute between the supporters of supply-side and Keynesian economics. Only when budgets have been balanced, taxes are low and wages are brought down can growth return, says the one side; those who cut public and private demand so radically are**

driving countries into recession and driving debts up instead of down, says the other. Average growth in Europe has declined continuously and was only 1.4 percent in 2011, while the economy is expected to shrink this year.

For many debt-ridden countries, **growth** is one of **four possibilities to reduce debt**. **Balancing budgets through cuts and tax increases** is another. The third option is a **debt haircut**, which means declaring bankruptcy and no longer servicing at least a portion of debts. The fourth path **is inflation**, that is, allowing the debt to melt away on the quiet at the expense of savers and consumers. But three to four percent inflation can hardly be justified politically in Germany, although the prospects are better in the United States and other countries. For this reason, and in response to German pressure, **European countries are now trying out tough austerity programs.**

A European Depression and a Pending Japanese Disaster

Because governments are in disagreement, bodies are taking their place that are turning into ersatz governments: the central banks.

The ECB's decision to buy up unlimited amounts of the sovereign debt of European countries is a replacement for political solutions for which there are currently no majorities in the governments and parliaments of euro-zone countries. The decision by the American Federal Reserve Bank to inject hundreds of billions of dollars into the markets again to stimulate economic growth results for the inability of Democrats and Republicans to agree on a compromise between limiting debt and economic stimulus programs. **Printing money -- or betting hundreds of billions once again -- is the last desperate response on both sides of the Atlantic.**

What began four years ago with the bursting of a credit bubble in the mortgage market is being combated with more and more new debt in the trillions, thereby inflating the next, even bigger credit bubble.

The fresh trillions circle the world in the search for yield, **but only a small part of the money flows into the real economy, where investments in new production plants produce lower returns**. Instead, the trillions slosh back and forth, from one financial market to another, from the foreign currency market to the commodities market, and from the gold market to the stock market and back again.

Because these trillions are not reaching the real economy, the risk of inflation is currently smaller than Germany's central bank, the Bundesbank, and its president would have us believe. **But every saver and everyone with a life insurance policy pays for the central bank's low interest-rate policy with low interest rates. When central banks keep interest rates close to zero for long periods of time, which they have done for years, they disadvantage ordinary savers and favor major investors, gamblers and banks, which can borrow at low rates and invest the money elsewhere at a profit.**

Blaming the Banks

Who and what has gotten the world into such trouble, and how can it extricate itself again? Not surprisingly, **former Chancellor Schmidt blames investment bankers, the managers and bankers** who flooded the world with worthless securities and long speculated on the sovereign debt of crisis-ridden countries, and who hedged their risks, which were much too high, with far too little capital and therefore had to be rescued with taxpayer money. Banks are still the focus of all problems in the financial markets. They still have to be supplied with money, and they still pose a threat to the system.

And those who allowed them to become so powerful are all those politicians and governments that gave the financial markets so much freedom, often socialized the risks, incurred too much government debt, and allowed the municipalities, states and countries to become so irresponsible. "The market" is not some group of experts, nor is it the last resort of collective reason. It is an orgy of irrationality, arbitrariness, waste and egoism. "Democracy" is not some event involving citizens, or some celebration of altruism and far-sightedness, but rather the attempt to bundle diverging interests into decisions in a way that's as peaceful as possible.

Together, the market and democracy are what we like to call "the system." The system has driven and enticed bankers and politicians to get the world into trouble, or least one could argue that if they too weren't part of the system. And we could sweep it away if we had a better one.

Instead, we are left with an undisguised view of the system. One of the side effects of the crisis is that all ideological shells have been incinerated. **Truths about the rationality of markets and the symbiosis of market and democracy have gone up in flames.**

The Problems of Modern Capitalism

The European depression is only prelude, with the Japanese disaster waiting in the wings. The country's debt-to-GDP ratio is **230 percent**, and the government is dependent on the opposition approving the issue of new government bonds. **Lurking behind it all is the American abyss**, the debt drama of the next few months, the showdown and duel between Democrats and Republicans over which party can blame the other one for a national bankruptcy.

And then, finally, we have a clear view of **the three biggest problems** in finance-driven, democratically constituted capitalism: **First, how can a debt-ridden economy grow if a large part of demand in the past was based on debt, which is now to be reduced?**

The **second** major problem of modern capitalism is this: **How can the unleashed financial markets be reined in again, and how should the G-20 countries come up with joint rules for major banks, which are their financiers and creditors, and for markets, which punish and reward these countries through interest?** How much freedom do financial markets need to serve the global economy as a lubricant, and what limits do they need so that banks, shadow banks and hedge funds do not become a threat to the system?

Third, how do governments mediate between the power of the two sovereigns, how do they reestablish the primacy of citizens over creditors, and how does democracy function in debt-ridden countries? How can politicians react without burdening countries with more debt, and how can they reduce that debt? **In fact, how can they even govern anymore in this prison of debt?** In the past, future revenues were mortgaged, in municipalities, states and the federal government. This now makes it difficult to structure the present and the future. **Today only about 20 percent of the federal budget is truly politically available**, as compared with 40 percent when Schmidt was still in office.

It is always only at first glance that the world is stuck in a debt crisis, a financial crisis and a euro crisis**. In fact, it is in the midst of a massive transformation process, a deep-seated change to our critical and debt-ridden system, which is suited to making us poor and destroying our prosperity, social security and democracy, and in the midst of an upheaval taking place behind the backs of those in charge.**

A great bet is underway, **a poker game with stakes in the trillions**, **between those who are buying time with central bank money and believe that they can continue as before, and the others, who are afraid of the biggest credit bubble in history and are searching for ways out of capitalism based on borrowed money**.

Translated from the German by Christopher Sultan http://www.presseurop.eu/en/content/cartoon/3041591-splendid-isolation

http://www.presseurop.eu/en/content/article/3041121-no-sacrifices-without-hope

Austerity

No sacrifices without hope

16 November 2012

Project Syndicate Prague

Michael kountouris

If the EU had greater legitimacy, Europeans would agree more readily to the efforts that are asked of them, because they could then expect to see these sacrifices rewarded.

Michael Marder

In a recent interview, French President François Hollande made the crucial, but often forgotten, point that there are limits to the level of sacrifice that can be demanded of the citizens of southern Europe's financially distressed countries. To avoid turning Greece, Portugal, and Spain into collective "correctional houses," Hollande reasoned, people need hope beyond the ever-receding horizon of spending cuts and austerity measures.

Even the most rudimentary understanding of psychology supports Hollande's assessment. Negative reinforcement and delayed gratification are unlikely to achieve their goals unless there is a perceived light at the end of the tunnel – a future reward for today's sacrifices.

Public pessimism in southern Europe is largely attributable to the absence of such a reward. As declining consumer confidence and household purchasing power deepen the recession, projections of when the crisis will end are repeatedly pushed back, and those bearing the brunt of austerity are losing hope.

Throughout history, the concept of sacrifice has merged theology and economics. In the ancient world, people made often-bloody offeringsto divinities, whom they believed would reward them with, say, good harvests or protection from evil. Christianity, with its belief that God (or the Son of God) sacrificed Himself to expiate humanity's sins, inverted the traditional economy of sacrifice. In this case, divine suffering serves as an exemplar of the selflesshumility with which earthly misfortunes should be endured.

Churchill gave Britons something to look forward to

Despite secularization, the belief that rewards, or achievements, require sacrifice has become an integral part of European cultural consciousness. The idea of a "social contract" – which arose during the Enlightenment in orderto address, without resort to divine right, the legitimacy of the state's authority over its citizens – rests on the premise that individuals surrender a certain degree of personal liberty in order to secure peace and prosperity for all.

As a result, political leaders have often asked citizens to sacrifice personal freedoms and comforts in the name of secularized spiritual entities, such as the nation or the state – and citizens have eagerly obliged. In his first speech to the House of Commons as Prime Minister of the United Kingdom, Winston Churchill inspired hope in a beleaguered nation when he famously declared that he – and thus Britain – had "nothing to offer but blood, toil, tears, and sweat."

Given such countless precedents, it may be surprising that the rhetoric of sacrifice under the banner of austerity has proven so ineffective in Europe's current crisis. Some observers blame declining levels of commitment to anything that transcends the individual, including the political system.

But resistance to austerity in southern Europe is not rooted in general hostility toward sacrifice. Rather, Europeans have come to believe that their leaders are demanding sacrifices that do not advance their interests. Churchill gave Britons something to look forward to: victory. Without a clear end that justifies it, sacrifice becomes meaningless.

Europe's leaders must imbue their citizens with renewed hope

Prosperity was supposed to legitimize the European Union. After the period of rapid economic growth ended, Europe's leaders came to rely, instead, on the threat of an evil that is greater than austerity: further destabilization of debtor countries, leading to default, expulsion from the eurozone, and economic, social, and political collapse.

But the rhetoric of fear is losing sway, because the "new deal" taking shape across southern Europe offers morerepression and less protection, thus violating the social contract's fundamental tenets. Indeed, while European citizens are being asked to sacrifice their standard of living – and even their livelihoods – for the sake of the "national economy," transnational corporations are thriving.

The conditions imposed by the "troika" – the European Commission, the European Central Bank, and the International Monetary Fund – amount to an indefinite delay in addressing the needs of those asked to sacrifice and in repairing tattered social safety nets. Yet national governments continue to implement policies that exacerbate injustice. For example, Portugal's 2013 budget reduces the number of tax brackets from eight to five – a move that will devastate the middle class.

Sacrifice used to involve ransoming the body – its pleasures, basic needs, and even vitality – for the sake of the spirit. While the discourse of sacrifice persists, the logic that has shored it up for millennia has been abandoned. Europe's leaders must imbue their citizens with renewed hope. The legitimacy of "post-national" Europe – based on the EU's obligation, enshrined in the Lisbon Treaty, to promote "the well-being of its people" – is at stake.

http://www.nytimes.com/2012/11/16/world/europe/greeks-pelt-german-diplomat-in-austerity-protest.html?_r=0&adxnnl=1&ref=europe&adxnnlx=1353047619-vtUbreAuGcHyrlclQj1b6A

November 15, 2012

Greeks Pelt German Diplomat in Austerity Protest

By LIZ ALDERMAN and NICHOLAS KULISH

Nikolas Giakoumidis/Associated Press

Wolfgang Hoelscher-Obermaier, right, was the target of Greek protesters' anger on Thursday.

By LIZ ALDERMAN and NICHOLAS KULISH

PARIS — Demonstrators surrounded a German diplomat in Salonika in northern Greece on Thursday and hurled coffee and bottles of water at him, **another reflection of growing anger in Greece against what is widely seen as a crippling austerity plan being imposed largely by Germany.**

The incident involving the diplomat, Wolfgang Hoelscher-Obermaier, flared **a day after Chancellor Angela Merkel's special envoy to Greece, Hans-Joachim Fuchtel, said studies showed that 1,000 German local government officials could do the work of 3,000 Greek officials.**

His remarks, which came as European leaders dallied again over how to finance the debt-racked country, infuriated Greeks in Salonika who had been on strike and had occupied the town hall to protest a $17 billion austerity bill that Prime Minister Antonis Samaras's government approved last week. Greece had to pass the measure in order to receive $40 billion in aid that it needs to avoid bankruptcy.

On Thursday, Mr. Fuchtel said his comments were not directed at Greek officials. "I have met many industrious Greek civil servants," he said. "My point was about making the administration more effective, with fewer levels of decision making."

But in a country with unemployment nearing 30 percent, and where the austerity measures passed last week were equivalent to 9 percent of the country's economic output, Mr. Fuchtel's comments were seen as tone deaf.

Early reports that protesters had stormed a meeting in Salonika that included the diplomat, Mr. Hoelscher-Obermaier, were incorrect, Mr. Fuchtel said, adding that the only disruption came when coffee was thrown on Mr. Hoelscher-Obermaier.

But Greeks were still riled by Mr. Fuchtel's remarks. He "cannot understand exactly how serious is the problem, the social deterioration in Greece," said Nikos Xydakis, a columnist for Kathimerini, a daily newspaper. "I don't know if he understands how the unemployment rates are translated in human lives," he said, adding that Mr. Fuchtel lacked "the flexibility and the diplomatic skills" to speak more carefully.

The Greek-German tensions broke open a day after coordinated strikes in Portugal, Spain, Italy and Greece. That effort, and the deep divisions among Greece's foreign lenders over how best to resolve the country's debt problems, have tapped into a growing sense across Southern Europe that the social order is unraveling faster than European leaders are acting to preserve it.

Mr. Fuchtel's task was to assist Greek municipalities in setting up strategic partnerships with German towns and cities to help them become more efficient. He has been received warmly by officials but less so by a wary public.

European officials this week delayed a decision on releasing the $40 billion aid installment, saying they needed more time to assess if Greece was adhering to reforms promised in exchange for two bailout packages totaling more than $300 billion.

Greece's European partners are likely to send billions in aid anyway by the end of November to avoid the threat of a default and the trouble it could stir up, both in bond markets and on Greece's streets.

Meanwhile, Germany's economy continued to defy the recession that is gripping the euro zone, growing 0.2 percent in the third quarter even as the Greek economy continued to collapse.

That growth is drawing thousands of migrants. According to statistics released Thursday, half a million people moved to Germany in just the first six months of 2012, with an especially sharp rise in the number of people moving there from crisis-stricken countries in Southern Europe. An additional 6,900 people came from Greece, an increase of 78 percent over the first half of 2011, along with an additional 3,900 from Spain, a 53 percent increase, and 2,000 more from Portugal, also a 53 percent increase.

The absolute numbers are not that large, but the increase in migration to Germany's relatively robust economy could stoke fears of a brain drain in the euro zone. German companies have been trying to recruit for professions from engineering to health care as more people leave the country's rapidly aging work force.

Liz Alderman reported from Paris, and Nicholas Kulish from Berlin. Rachel Donadio contributed reporting from Rome.

http://www.nytimes.com/2012/11/16/opinion/frances-nutty-socialism.html?ref=global

November 15, 2012

France's Nutty Socialism

OP-ED By ROBERT ZARETSKY, a professor of French history at the University of Houston Honors College.

FRANÇOIS Hollande described Tuesday night's press conference, his first since becoming France's president, as a "teaching moment" to explain his controversial economic program. **One of the lessons, it appears, is that the French must learn to eat their crêpes sans Nutella**. While we should not make too much of the popular hazelnut and chocolate spread, it is possible that its fate has become oddly entwined with that of French socialism.

French socialism has long tended to be less doctrinal than inspirational. In part, this resulted from its ancestry: Several different streams — some purer, others deeper, but all of them flowing from the French Revolution — converged in 1905, forming the Section Française de l'Internationale Ouvrière.

Socialism's beginnings were wrapped in mystique, not politique. The promise inherent to socialism, channeled by titanic figures like Jean Jaurès, was to invest politics with a moral and civic imperative: to create a society where "every citizen has the time and liberty to devote themselves to the commonweal."

The S.F.I.O. was a hybrid in another important respect: a vehicle built for the working class, most of its drivers were bourgeois intellectuals. Thus Jaurès, the party's founder, began as a professor of philosophy, while Léon Blum first made his name as a literary critic, and François Mitterrand always seemed more comfortable with Montaigne than Marx. Leaders talked the revolutionary talk, but never truly contemplated walking the walk.

In 1936 Blum famously distinguished between the prudent exercise of power and revolutionary conquest of power — no one doubted which he preferred — while Mitterrand announced straight-faced in 1979: "Without a strategy of rupture the Socialist Party would lose its identity. What use would it be for us to become a vague copy of reformist parties, which always end up as the bedfellows of the dominant class?"

Despite such flights of revolutionary rhetoric, the Socialists ended up less as bedfellows of the dominant class than the dominant class themselves. Their pragmatism has been both eminently reasonable and inevitably detrimental.

Despite the trills of socialist accomplishments — the 40-hour week and paid vacations with Blum, the abolition of capital punishment and decentralization of power under Mitterrand — the basso continuo of technocratic governance became dominant. What happens, though, when all that is left is the basso continuo? One, moreover, that keeps striking wrong notes?

When he defeated Nicolas Sarkozy last May, Hollande became France's accidental president. He had excelled as a party administrator but had little national exposure, and few considered him a serious contender.

This changed with the sordid scandal that enmeshed the party's presumptive candidate, Dominique Strauss-Kahn, and the intense animosity spawned by **Sarkozy's** controversial private life. **France was ready for a leader whose greatest virtue seemed to be his blandness.** Dubbed Monsieur Normal, Hollande defeated President Bling-Bling.

But bling is now waxing, while bland wanes. Since the summer, President Hollande's popularity, along with Prime Minister Jean-Marc Ayrault's, has plummeted to levels previously tasted by Sarkozy. In the most recent TNS-Sofres poll, scarcely 36 percent of respondents expressed confidence in Hollande, and even fewer in Ayrault. A recent Harris poll revealed that nearly half of the respondents preferred to see Sarkozy back in power.

In part, Hollande's government has been its own worst enemy: **Ayrault has put his foot so often in his mouth** — most recently in declaring that he was willing to discuss changes to the party's sacrosanct 35-hour work week — that it is not available to put down with his cabinet colleagues.

More fundamentally, history seems to have caught up with the Socialists. The French economy, which is running an annual deficit of 4.5 percent, staggers under the costs of an increasingly untenable welfare state that the Socialist helped bring into being.

At the same time, one of the party's greatest achievements — the devolving of significant powers from Paris to the provinces — has been overshadowed by an even more powerful centralizing institution, the European Union. **Given the E.U.'s ironclad rule that a member state's annual deficit cannot exceed 3 percent, Hollande's government must either slash spending or raise taxes — equally grim options for an economy that has effectively stalled.**

Hollande has proposed to do both — which brings us to Nutella. Rather than increase taxes on individuals or corporations, the government instead aims to raise the already onerous sales tax (T.V.A.) from 19.6 percent to 20 percent on a range of consumer goods. At his press conference, Hollande vowed to maintain the T.V.A. hikes.

Moreover, the **Socialists plan to quadruple the tax on palm oil**. This will affect a range of comfort foods — **most crucially Nutella**, the hazelnut and chocolate spread from Italy that is a staple of French working class households**. France is the world's largest consumer of the paste, annually devouring 75,000 tons. Ergo, "Nutella tax."**

To be sure, the Socialists argue that **Nutella is bad for our health and worse for the Amazonian rainforests**. But the increase also appears, as one Communist deputy exclaimed, to be little more than "**a tax on the workers."**

Of course, a revolution is not in the offing. Yet **for voters for whom the Socialists' health and global concerns are as distant for struggling French workers as work itself is for three million of their unemployed fellow citizens,** they may not bother to go to the voting booth next time, either.

http://www.euronews.com/2012/11/15/greek-protesters-target-german-diplomat/

15/11 16:55 CET

Greek protesters target German diplomat

Anti-German feeling in Greece got personal in Thessaloniki when the German consul came under attack from Greek workers.

They threw bottles of water at Wolfgang Hoelscher-Obermaier as he went to a meeting of officials from both countries.

Riot police used batons and tear gas to try to contain the crowd of around 250 municipal employees, but a group of protesters managed to break through and storm the building.

They were particularly angry at comments made on Wednesday by another senior German official who implied that his countrymen were three times more efficient than Greek workers.

Many people in Greece, exhausted by years of austerity and recession, blame the German government for forcing more belt-tightening in exchange for emergency rescue funds.

The EU and the IMF have demanded more public sector job cuts as a precondition for a second bailout of 130-billion euros.

http://www.lemonde.fr/societe/article/2012/11/15/les-banlieues-premieres-victimes-de-la-crise_1791604_3224.html

Les banlieues, premières victimes de la crise

Le Monde.fr | 15.11.2012 à 20h57

Les banlieues sont de loin les premières victimes de la crise, avec un chômage et une pauvreté en hausse, selon un rapport à paraître vendredi 16 novembre attestant du net accroissement des inégalités entre les territoires.

Lire : ***La pauvreté frappe plus fort en Seine-Saint-Denis***

Les 751 zones urbaines sensibles (ZUS) cumulaient déjà les handicaps, mais selon l'Onzus, la crise a encore aggravé leur situation. Le taux de pauvreté (part des personnes vivant avec moins de 964 euros par mois) y est ainsi passé de 30,5% en 2006 à 36,1% en 2010. Au cours de la même période, il n'a progressé que de 11,9% à 12,6% en dehors de ces quartiers.

TAUX DE CHÔMAGE PLUS ÉLEVÉ

Plus jeunes, moins qualifiés, majoritairement d'origine étrangère, les 4,5 millions d'habitants des ZUS peinent d'abord sur le marché du travail. Depuis 2008, la part des habitants de ZUS ayant un emploi ne cesse de diminuer et moins d'une personne âgée de 15 à 64 ans sur deux (47,6%) y est aujourd'hui salariée.

En parallèle, le taux de chômage est encore passé de 21,9% en 2010 à 22,7% en 2011. Or, rapporte l'Onzus, *"les effets de la crise économique semblent plus prononcés en ZUS car dans le même temps, le taux de chômage dans les autres quartiers des mêmes agglomérations est très stable depuis 2009,autour de 9,5 %"*.

Hasard du calendrier, le rapport annuel de l'Observatoire national des zones urbaines sensibles (Onzus) paraît juste après la grève de la faim du maire de Sevran (Seine-Saint-Denis), Stéphane Gatignon, qui a mis les projecteurs sur les défis des villes pauvres.

http://www.lefigaro.fr/international/2012/11/15/01003-20121115ARTFIG00796-ayrault-tente-d-arrondir-les-angles-avec-angela-merkel.php

Ayrault tente d'arrondir les angles avec Merkel

Par Patrick Saint-Paul Mis à jour le 15/11/2012 à 22:12 | publié le 15/11/2012 à 21:36 Réactions (1)

Jean-Marc Ayrault et Angela Merkel, jeudi, à Berlin. Crédits photo : JOHN MACDOUGALL/AFP

Les efforts de diplomatie du premier ministre ont pourtant failli trébucher sur un fâcheux lapsus.

Fallait-il un ancien professeur d'allemand pour rassurer Berlin? Pour sa première visite officielle outre-Rhin, Jean-Marc Ayrault n'a pas hésité à jouer pleinement la carte de son intime connaissance de l'Allemagne pour vanter le sérieux de son gouvernement et tenter de dissiper les inquiétudes de Berlin concernant la trajectoire économique de la France. S'exprimant en partie dans la langue de Goethe devant les décideurs économiques allemands, le premier ministre a ensuite eu un tête-à-tête avec Angela Merkel.

Ce geste symbolique a été apprécié à Berlin… en dépit d'un lapsus du premier ministre, qui a qualifié le dialogue d'«effroyable» au lieu de «fructueux» par le déplacement d'un «r» dans un mot allemand. «Cela facilite l'entente de pouvoir s'entretenir directement en allemand», s'est réjouie la chancelière…

Angela Merkel s'est refusé à porter un jugement sur les mesures prises par le gouvernement français pour relancer la compétitivité. Cependant, elle a souhaité «beaucoup de succès à la France pour le parcours engagé». Et elle n'a pas cherché à dissimuler sa préoccupation: «Naturellement, j'observe les négociations politiques en France visant à améliorer la compétitivité. Nous avons besoin de renforcer la compétitivité de l'Europe. Nous voulons une France forte, comme la France souhaite une Allemagne forte, afin de construire une Europe forte.»

L'Allemagne s'inquiète depuis des semaines de l'absence de réformes structurelles, portant notamment sur le marché du travail et la réduction des dépenses de l'État. «Je suis venu vous parler du redressement économique de la France», a lancé un Jean-Marc Ayrault décidé «à lever toute ambiguïté», devant des entrepreneurs allemands réunis pour un colloque sur les défis de l'Europe face à l'économie mondialisée.

«Nous respecterons l'objectif de 3 %» de déficit public par rapport au PIB en 2013, a assuré le premier ministre pour souligner le sérieux budgétaire de la France. Et d'ajouter que son gouvernement s'efforce de faire aboutir la négociation avec les partenaires sociaux en vue d'amorcer «un tournant historique dans l'organisation de notre marché du travail». Il a dit s'inspirer de la méthode allemande de dialogue social, qui avait ouvert la voie aux réformes entreprises par Gerhard Schröder au milieu des années 2000. Avant de déjeuner avec les dirigeants syndicaux allemands, «pour (s)'entretenir avec eux de la façon de négocier un bon accord».

Dans un entretien à la *Süddeutsche Zeitung*, Ayrault a répondu aux critiques de Gerhard Schröder: «La France n'a pas besoin de leçon.» L'ex-chancelier social-démocrate avait taclé ses camarades du gouvernement français en affirmant qu'ils avaient pris un mauvais départ et que «les promesses de campagne du président français vont se briser sur la réalité économique». Ayrault a rappelé que Schröder avait attendu son second mandat pour s'atteler aux réformes structurelles, alors que le gouvernement français, en fonction depuis 6 mois, «a déjà pris des décisions courageuses». Il a aussi vanté les mesures «sans précédent» décidées il y a quelques jours pour relancer la compétitivité de l'économie française. Et plaidé pour «plus de compréhension».

Ayrault aura au moins rassuré Berlin sur un point, en affirmant partager le «diagnostic sévère» dressé par Louis Gallois et en soulignant «le décrochage réel» de l'économie française depuis dix ans.

Pour le reste, l'Allemagne espère des mesures concrètes rapidement. «Nous attendons avec impatience les décisions des prochaines semaines en France, décrypte un proche conseiller de la chancelière pour Le Figaro. Nous avons un grand intérêt à avoir une France forte, pour que la relation avec l'Allemagne reste équilibrée. C'est pourquoi nous suivons de près le processus de réformes visant à améliorer la compétitivité. Le rapport Gallois montre que les Français eux-mêmes sont conscients des difficultés. Une récession aurait aussi des répercussions sur l'économie allemande.»

Berlin détaille aussi depuis plusieurs mois ses pistes de réflexion pour réformer les institutions européennes sur un modèle plus fédéral. La chancellerie a conscience de l'allergie française aux abandons de souveraineté. Elle souhaite cependant engager avec Paris un dialogue constructif sur l'avenir de l'Europe, en vue du Conseil européen de la fin décembre. En dépit des efforts de Jean-Marc Ayrault, Paris et Berlin ne parlent pas encore tout à fait la même langue… Mais ils sont prêts à mettre un peu de bonne volonté pour se comprendre.

http://www.faz.net/aktuell/politik/europaeische-union/besuch-in-berlin-ayrault-beschwichtigt-deutsche-sorge-um-frankreich-11961708.html

Besuch in Berlin: Ayrault beschwichtigt deutsche Sorge um Frankreich

15.11.2012 · Bei seinem Zusammentreffen mit Bundeskanzlerin Merkel versucht der französische Premierminister, Bedenken hinsichtlich Frankreichs Reformfähigkeit zu zerstreuen.

Von Günter Bannas, Berlin

© dpa Bundeskanzlerin Angela Merkel und Frankreichs Ministerpräsident Jean-Marc Ayrault am Donnerstag in Berlin

Der französische Premierminister Jean-Marc Ayrault hat am Donnerstag versucht, Bundeskanzlerin Angela Merkel (CDU) von dem Willen der französischen Regierung zu überzeugen, innerstaatliche Reformen durchzusetzen. Skeptische Bewertungen in der Bundesregierung, ob dies der neuen Führung Frankreichs unter der Präsidentschaft François Hollandes gelingen werde, bedachte der Premierminister mit Hinweisen auf eine „solide parlamentarische Mehrheit“ der Sozialisten. „Das erlaubt es uns, Reformen anzupacken. Unsere Aufgabe ist es, den Haushalt wieder unter Kontrolle zu bekommen. Ziel ist es, das Defizitkriterium einzuhalten“, sagte Ayralt am Vorabend seines Besuches der „Süddeutschen Zeitung“. Am Donnerstag besuchte er - vor seinem Gespräch mit Frau Merkel - eine Veranstaltung der Zeitung in Berlin. Er sagte, im kommenden Jahr werde sein Land seine Neuverschuldung von 4,5 Prozent auf 3,0 Prozent verringern. Die Sparmaßnahmen würden aber nur akzeptiert, wenn sie gerecht verteilt würden, äußerte Ayrault.

Der französische Premierminister wurde am Nachmittag von Frau Merkel im Bundeskanzleramt begrüßt - mit „militärischen Ehren“, was beim Empfang französischer Ministerpräsidenten in Berlin eine Ausnahme ist. Gewöhnlich kommt im Verhältnis zu Frankreich diese Form der Begrüßung dem französischen Staatspräsidenten zu. Am Abend diskutierte Ayrault mit deutschen Intellektuellen. Derweil sprach Frau Merkel mit dem niederländischen Ministerpräsidenten Mark Rutte.

Frau Merkel stimmte sich mit ihren Gesprächspartnern über gemeinsame Haltungen im Streit über den EU-Haushalt ab. Am Mittwoch hatte es in einem Gespräch Frau Merkels mit dem polnischen Ministerpräsidenten Donald Tusk Differenzen über Sparmaßnahmen gegeben. Ayrault machte deutlich, er lehne den Haushaltsvorschlag des EU-Ratspräsidenten Herman Van Rompuy ab. Frankreich sei nicht bereit, die gemeinsame Agrarpolitik aufzugeben. Europas Zukunft kann nicht weniger, sie muss mehr Solidarität bedeuten.“ Mit Blick auf deutsche Sorgen über inflationäre Tendenzen sagte er: „Deutschland muss nicht nur eine Inflation fürchten, sondern auch eine Deflation.“ Er sagte auch: „Leichtfertigkeit in der Haushaltsführung würde in die Katastrophe führen. Aber Europas Wirtschaft muss auch wachsen.“

Der Sozialist Ayrault suchte es zu vermeiden, in parteipolitische Auseinandersetzung in Deutschland gezogen zu werden. Er verwies auf die freundschaftlichen Beziehungen früherer französischer Präsidenten und deutscher Kanzler, die von parteipolitischen Zugehörigkeit unabhängig waren. Er könne „auch hervorragend mit der aktuellen Regierung zusammenarbeiten“, sagte er.

http://www.economist.com/news/special-report/21566234-if-other-european-countries-have-recently-managed-big-reforms-why-cant-france-look-about

The future

Look about you

If other European countries have recently managed big reforms, why can't France?

Nov 17th 2012 | from the print edition

Getting from non to oui

THIS SPECIAL REPORT has argued that the economic problems facing France are grave and immediate and that the need for reform is pressing. None of this was much talked about in the presidential and parliamentary election campaigns earlier this year. Yet the new government of François Hollande has belatedly come to recognise some of the dangers.

Some seasoned politicians seem to believe that reforming France is impossible. That is too pessimistic. Many other European countries that for years resisted change have now pushed through substantial, politically controversial and often painful reforms. But almost all have four things in common that are currently lacking in France: a deep and widespread sense of crisis; a population that accepts there is no alternative to change; a political class with the fortitude (and often also an electoral mandate) to push it through; and leaders who really believe in what they are doing rather than feel it is being forced on them from outside.

Examples abound. In the 1980s the British, Dutch and Irish went through painful adjustments. Over the past decade the three Baltic countries, especially Latvia, have undergone what economists call an "internal devaluation" in which wages and GDP per head have shrunk by a quarter or more in order to regain lost competitiveness. Since the euro crisis began in earnest in late 2009, Greece, Ireland and Portugal have imposed swingeing budget and wage cuts and other unpopular reforms on their voters. Spain and Italy are having to do the same.

The northern route

The two best models for France are Germany and Sweden. Germany, inside the euro, became so alarmed by slow growth, lack of competitiveness and high unemployment in the euro's early years that the Social Democratic chancellor at the time, **Gerhard Schröder**, brought in a series of reforms to improve labour-market flexibility and make welfare payments somewhat less lavish. This was the basis for today's super-competitive economy. An even better example is Sweden, outside the euro, which began its reforms after a banking crisis in the early 1990s. Under a centre-right government since 2006 it has stuck firmly to continuing fiscal retrenchment and reform of labour markets and the welfare state. **Sweden is now growing and creating jobs, and has even administered a fiscal stimulus.**

These examples show what can be done, but they also demonstrate that reform is difficult and painful. The first Socialist president to be elected in France in almost a quarter of a century will find it especially hard. Mr

Hollande knows what happened to Mr Schröder: **the voters kicked him out in 2005**. And he is familiar with the aphorism cited by Jean-Claude Juncker, the prime minister of Luxembourg and president of the euro group of finance ministers, that "we all know what needs to be done, we just don't know how to be re-elected after we've done it."

The French people may be waking up to their troubles, but there is nothing like the sense of crisis felt in the Baltic countries, in Athens, Dublin and Lisbon, and now in Madrid and Rome. Moreover, neither Mr Hollande nor Mr Ayrault seems to be the sort of leader who will be resolute in a confrontation. If and when things go wrong Mr Hollande might be forced, like so many of his predecessors, to find a new, tougher prime minister, perhaps Manuel Valls, the interior minister, or Michel Sapin, the labour minister. But that would happen only if the pressure for change were to become far more intense.

Things in France may thus need to get a lot worse before they get better. The reforms and austerity being pursued by other euro-zone countries are reducing their cost base and shrinking their current-account deficits, leaving France much more exposed. Differences between France and Germany over deeper political and economic integration are adding new tensions.

It is widely believed that Spain and Italy are the key tests for whether the euro will survive, but in some ways France may be more crucial still. If it does not improve its competitiveness and also obstructs deeper integration, it is hard to see it staying in the euro—and it is almost impossible to envisage a single currency without it. Precisely when all this comes to a head may depend on events in the run-up to the German election next September, on whether new turbulence hits the euro—and, above all, on how long financial markets continue to treat a largely unreformed France as a safe haven for their money.

A crisis is surely coming. Yet when it arrives, reforms in France may not have to be quite as savage or as impossible to push through as many believe. France has some big advantages, and the French are capable of accepting change. Not long ago it was thought they would never accept a smoking ban in indoor public spaces, or observe speed limits.?????? Now they meekly do both. Many of them rail against globalisation, yet they eagerly embrace its fruits. They may believe that free-market capitalism is bad, but they are surprisingly adept at practising it.

A bold and determined reformer could restore French competitiveness, boost growth and reduce unemployment, restoring some of the former glory**. The trouble is that, on the evidence so far, it is hard to see the normal, easygoing Mr Hollande as the man to do it.**

http://www.economist.com/news/special-report/21566235-much-french-politics-not-matter-left-and-right-mixture

Politics

The mixture as before?

Much of French politics is not a matter of left and right

Nov 17th 2012 | from the print edition

What would Mitterrand have done?

ONE REASON WHY French political leaders are so reluctant to cede more power to Brussels is that, under the constitution of de Gaulle's Fifth Republic, they have such a lot of it. In most European countries coalition governments are the norm, so elected parliaments are robustly independent. In France, save for the occasional periods of cohabitation, the president is all-powerful, able to pick and choose prime ministers and members of the government at will and largely unchallenged by any parliamentary opposition. Presidential authority also benefits from France's relatively weak and often fawning media.

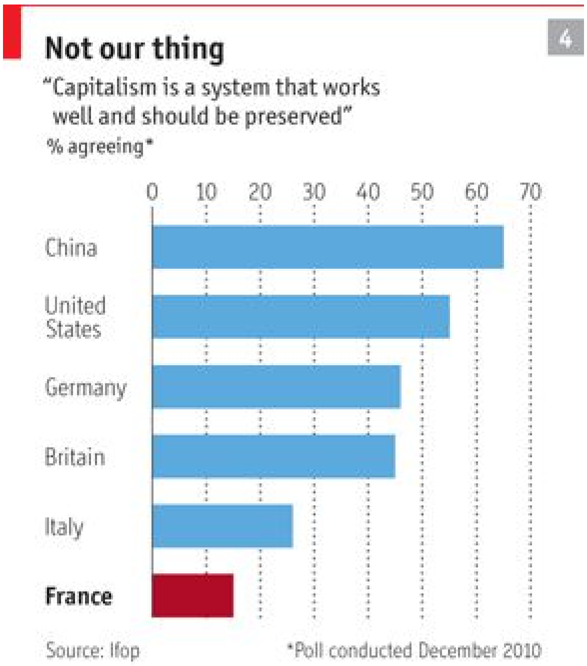
This has several undesirable consequences. One is that opposition in France, rather than making itself heard in parliamentary or public debates, often takes the form of street demonstrations. Mr Chirac's first government was confronted by rampant protests in 1995, and managed to lose a snap parliamentary election two years later. Mr Sarkozy's early attempts at reform a decade later also provoked big demonstrations.

French politics in the Fifth Republic is also unusually personalised. Political parties have a tendency to become vehicles for their leaders. Indeed, the centre-right UMP has often changed its name when it has acquired a new leader. This is not true of the Socialists, but the system of primaries to choose the party's presidential candidate has weakened the grip of its left-bank grandees. In 2007 Ségolène Royal was backed by few of the party's bigwigs yet won the presidential nomination before losing the election to Mr Sarkozy.

The French system also tends to produce political leaders who are all of a type. Few have any business or international experience or speak any foreign languages. Most are graduates of one of the *grandes écoles* (Mr Sarkozy was an exception, but with Mr Hollande the country has resumed its habit of choosing *énarques* as presidents). Most ministers, even on the lower pay set by Mr Hollande, work in grand town houses dotted around central Paris and are ferried about in cars (you seldom see a minister on the metro). All this breeds a detachment from reality that strengthens an innate belief in statism, a mistrust of free markets and a hostility to the world of finance and commerce, all deeply entrenched in the French body politic.

Filthy rich

Indeed, such views are entrenched in the minds of many French voters as well. In this respect France is different from many other affluent countries. One businesswoman says that the rich are now stigmatised in the way Jews were 70 years ago. Perhaps as a legacy from the revolution, the French are also obsessed by inequality—even though France is now a rarity in that inequality, as measured by the Gini coefficient, is actually lower today than it was in the mid-1980s.



Similarly, economics textbooks in schools and universities generally take a more hostile view of free markets and a more favourable one of state intervention than those in other countries. Opinion polls show that the French are less keen on Anglo-American free markets than people in other countries. Asked if capitalism is functioning reasonably well and should be preserved, only 15% of respondents in France say yes, compared with 45% in Britain, 55% in America and 65% in supposedly communist China (see chart 4). This is partly hypocrisy: despite its apparent distaste for American imports, France has more McDonald's restaurants than any other big country in Europe, and American-style coffee shops have made inroads into the market of traditional French cafés.

This is not a matter of left and right. Mr Hollande once said he did not like the rich, and in the election campaign declared that the chief enemy of France was finance. So far, so expected; but he was echoing not only Mitterrand (who denounced "all the power of money") but also de Gaulle, who declared that "my only enemy, and that of France, has never ceased to be money," and Edouard Balladur, a former Gaullist prime minister who once defined civilisation as the struggle against the market. No French political leader would dare to emulate Peter Mandelson, a senior British Labour politician, who said in 1998 that he was "intensely relaxed about people getting filthy rich".

One possible exception may have been Mr Sarkozy. In 2007 he defeated Ms Royal by running as an outsider, a man with a Hungarian father and who did not graduate from a *grande école*. He also told voters that France needed to change, to learn from other countries such as Britain and America and to be prepared for what he called *la rupture*. For a time before and after his election in May 2007 he seemed to be the man who might at last reform France. He faced down strikes to eliminate special pension regimes for some public-sector workers, shook up and partly liberalised the universities and began the long process of pushing up the retirement age.

It was the onset of the financial crisis in 2008 that drove Mr Sarkozy off course, in two ways. The first was economic: slower growth and then recession, followed by rising public borrowing and debt and higher unemployment, would have made reform harder to implement. The second was to undermine many of the arguments he had used for change. It was difficult to preach the case for freer markets when free-market excesses were widely thought to have caused the global financial meltdown. Mr Sarkozy himself was never a natural liberal. One fellow political leader from the European People's Party, the club of centre-right parties in Europe, recalls that when he and his colleagues discussed such goals as lower taxes, a smaller state, freer markets and deregulation, Mr Sarkozy would often argue against them.

The all-but-total absence of a liberal voice is another striking feature of French politics. Philippe Manière, a commentator, laments that "nobody in France campaigns for liberal ideas now." A few years ago Alain Madelin, a centrist politician, made a stab at it, and a new liberal think-tank is soon to be launched. But although France's first dictionary of liberalism has just come out, liberal-minded thinkers and political activists find it hard to get airtime, win seats or spread their ideas.

The future of the right in France is equally unclear. It is impossible to say which of the two candidates for the leadership of the centre-right UMP will win the primary that is now under way. According to most opinion polls the favourite is François Fillon, who served as prime minister throughout Mr Sarkozy's presidency. But his rival, Jean-François Copé, has been running the party for the past two years, and only members of the UMP can vote.

The first test for whoever wins may not be how best to oppose Mr Hollande's government but how best to deal with the far right. Ten years ago the world was shocked when the National Front's Jean-Marie Le Pen pushed the Socialists' Lionel Jospin out of the presidential run-off, thereby handing the second round to Mr Chirac. The National Front is now led by Mr Le Pen's daughter, Marine, who took 18% of the vote in the first round of this year's presidential election. She did not get into the run-off, but the combined score for her and the far-left candidate, Jean-Luc Mélenchon, both standing on an anti-euro, anti-EU and anti-free trade platform, was a shocking 30%. The National Front also won seats in parliament this year for the first time since the 1990s.

Ms Le Pen's strategy is clear. She is trying to broaden the National Front's appeal by toning down its attacks on immigration and diluting its racist and often anti-Semitic message. In their place she has put hostility to Islamification, and also to the EU and the euro, which she blames for aggravating rather than helping to solve France's economic crisis. In a grumpy country that feels increasingly marginalised in Brussels, this plays well. To vote for or work with the National Front is no longer seen as socially beyond the pale, which is why more women now do so.

Left in charge

For now, however, it is the Socialists who are firmly in power, and the most pressing question for France is whether they are capable of restoring the economy to health. Even neutral observers doubt both Mr Hollande's belief in reform and his strength of resolve to push it through.

Alain Minc, a well-connected analyst who is sympathetic to the centre-right, concedes that Mr Hollande is clever and well-informed, but notes that the president and his team have no knowledge or experience of any kind of business. Mr Minc finds it telling that the government advocates the policies of John Maynard Keynes (to boost domestic demand) but not Joseph Schumpeter (for the creative destruction that goes with entrepreneurialism). It may not be 1981 all over again, he adds, but the Hollande government is still essentially suspicious of business.

Mr Hollande is having to deal with tensions between his former partner and his current girlfriend, Valérie Trierweiler

That view is shared by Maurice Lévy, the boss of Publicis, a public-relations giant. He agrees that Mr Hollande is intelligent, citing as an example a meeting with him last December at which he conceded not only that steep social charges were putting French business at a competitive disadvantage but also that the Socialists' hallowed 35-hour week had been a big handicap. Yet he faults the president for not grappling with the crisis and instead running through his campaign "shopping list": raising the minimum wage, cutting the price of petrol, bringing in the 75% tax rate and so on. Mr Lévy suggests that a leader who wants to reform France needs two things: a real sense of crisis, and balls—and implies that Mr Hollande lacks both.

There are other reasons for doubt. When Mr Sarkozy tried to restart the reforms that Mr Chirac largely abandoned, he had one big advantage: that he had won a mandate by campaigning for change. Zaki Laïdi, a professor at Sciences-Po and a supporter of Mr Hollande's, insists he is a convinced reformer, though he admits reform is hard in a country without a culture of compromise. But most voters thought the Hollande message was not so much about reform as about ending unnecessary austerity, one reason why there were protests against September's belt-tightening budget.

Sotto voce, supporters of Mr Hollande voice doubts about his grit and determination for another reason that has echoes of his predecessor: difficulties in his romantic life. Mr Sarkozy was distracted early in his presidency by the very public departure of his then wife, Cécilia, and by his courtship of and marriage to Carla Bruni. Mr Hollande, who is unmarried, is having to deal with tensions between his former partner (and mother of his four children), Ms Royal, and his current girlfriend, Valérie Trierweiler. Ms Trierweiler, a journalist at *Paris-Match*, lent public support to a political rival of Ms Royal's who went on to defeat her in the parliamentary election in June (Ms Trierweiler later apologised). Ms Royal had hoped to become speaker of the National Assembly and is still casting about for some political role. If Mr Hollande cannot cope at home, some ask, can he really cope with the problems of his country?

http://www.economist.com/news/special-report/21566233-france-slowly-heading-towards-crisis-says-john-peet-can-country-be-reformed

So much to do, so little time

France is slowly heading towards a crisis, says John Peet. Can the country be reformed before it is too late?

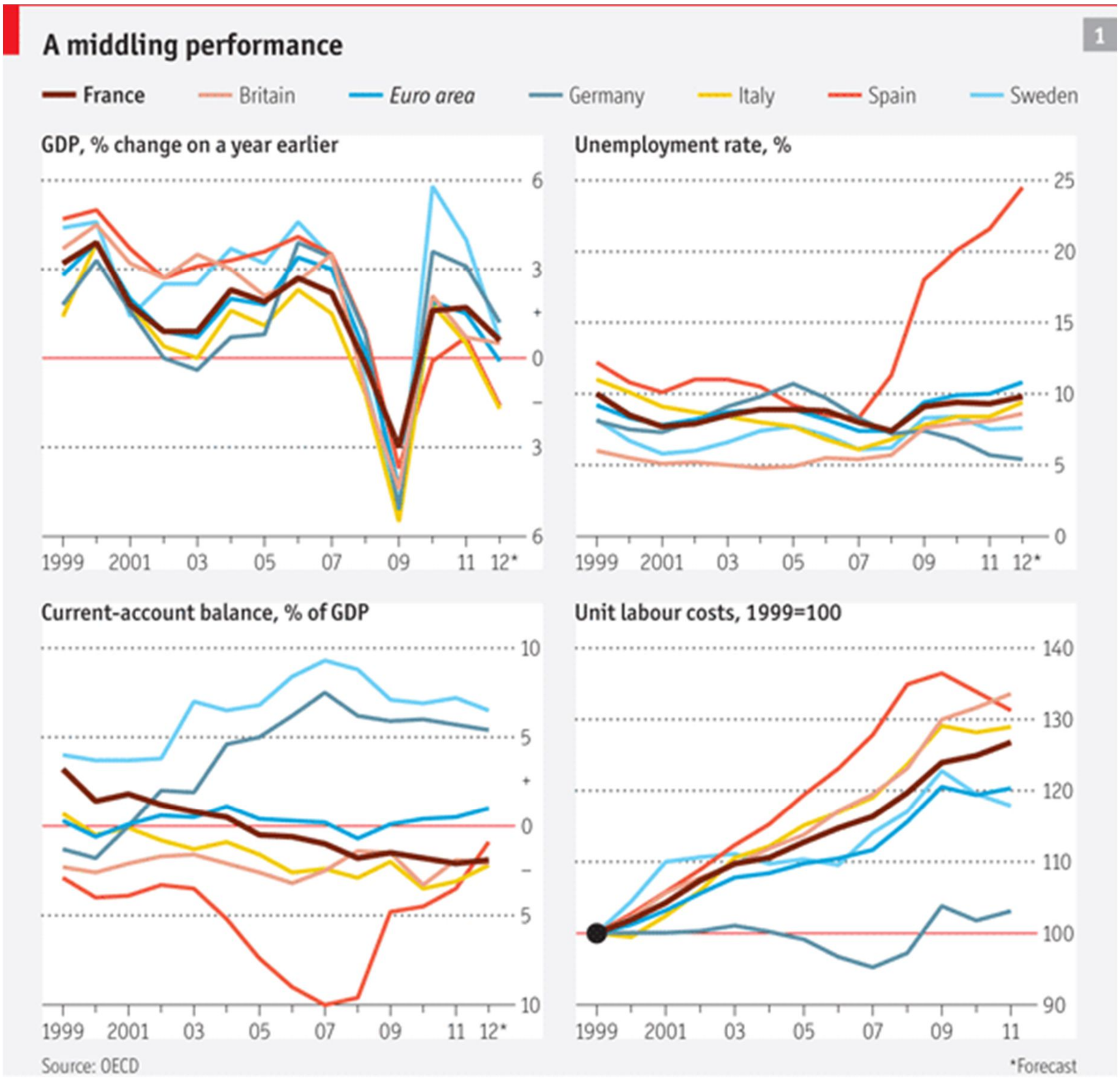
Nov 17th 2012 | from the print edition

THE HALL OF mirrors in the palace of Versailles, near Paris, where the eponymous peace treaty was signed in 1919, has been sparklingly restored. Yet as you follow the hordes of (mostly Chinese) tourists around, you notice that the reflections in the ancient looking-glasses are slightly distorted. Versailles's creator, Louis XIV, who famously asserted that "*l'Etat, c'est moi*", stood for a certain kind of statism that survives to this day, and similarly distorts the image of modern France. There are free-market successes but also too many instances of excessive state control; economic triumphs but also failures; northern puritanism but also a certain southern laxity. These contrasts make it easy to present the country in both a negative and a positive light.

Start with the negative. Public spending accounts for almost 57% of national output, the public debt stands at over 90% of GDP (and rising) and the country seems to be running a near-permanent budget deficit. It is no surprise that in January France lost its AAA grade from Standard & Poor's, a rating agency. Wealth, profits and high incomes are heavily taxed, the rich are routinely abused and people are instinctively hostile to capitalism. Everything from the labour market to pharmacies to taxis is heavily regulated: no wonder would-be entrepreneurs feel discouraged. No entirely new company has entered the CAC-40 stockmarket index since it started in 1987; redundancies can lead to endless court proceedings; and trade unions and protesters tend to take to the streets at the first hint of reform. It adds up to a deeply anti-business culture.

Yet there is also a much more positive side to the country. It is the world's fifth-biggest economy and sixth-biggest exporter. In the first half of 2012 it was the fourth-biggest recipient of foreign direct investment. It has more big multinational companies in the global *Fortune* 500 than Britain. The French are especially strong in top-end goods and services: luxury goods, food processing, pharmaceuticals, fashion. The infrastructure, especially in transport and energy, is second to none. Although many universities are mediocre, the *grandes écoles*, such as the Polytechnique and the HEC business school, are world class. The health system is widely admired. And unlike most other European countries France has a relatively favourable demographic outlook, with a birth rate just above replacement level.

The two images are clearly both sides of the same coin. Most French people enjoy high living standards. Over the past year the financial markets have been kind to France, even after the election of a Socialist president and government, allowing it to borrow at exceptionally low rates. Yet growth has stalled and the economy is on the brink of recession for the second time in five years (see chart 1). Several big companies are planning to follow Peugeot's example by closing factories. Unemployment has recently risen above 3m, a rate of over 10%. Youth unemployment is closer to 25%, and much higher still in the *banlieues* around Paris and other big cities where ethnic minorities are mainly concentrated.



As its public-spending numbers suggest, France is also more attached to a big role for the state than any other European country. The notion that governments must steer the economy has deep historical roots, going back at least as far as the state-financed Canal du Midi under Louis XIV. His finance minister, Jean-Baptiste Colbert, founded the Saint Gobain mirror factory and took over the Gobelins tapestry firm. In the 18th century the state established the royal saltworks at Arc-et-Senans in the Doubs. High tariff barriers buttressed the policy of *dirigisme*. After 1945 France again turned atavistically to the state to draw up five-year plans for the economy.

France's position as the world's leading tourist destination is no accident, and not just because of the scenery or the food. To many people it stands for a dream, encompassing the revolutionary ideals of liberty, equality and fraternity and epitomising the taming of uncontrolled markets, the promotion of culture, literature and intellectual debate, even the very notion of civilisation. Such riches can easily lead to an unattractive arrogance, but they explain much of the country's enduring appeal. They are also among the reasons why France and the French are so resistant to change: why would you want to take the reformer's knife to a country that represents the peak of civilisation?

Certainly France has been more reluctant and slower than any other country in Europe to reform its labour-market, pension, social-security and welfare systems. It largely skipped the radical shake-ups that happened in the Netherlands, Scandinavia and Britain during the 1980s and 1990s and in Germany in the 2000s. And, as the IMF recently pointed out, it is now being left behind by reformers in Italy, Spain, Greece and Portugal.

One consequence is a pronounced erosion of competitiveness. When Europe's single currency came into being in 1999, French labour costs were below German ones and the country had a current-account surplus. Now its labour costs are far above Germany's and it has a large and rising current-account deficit.

All this has meant a grim inheritance for François Hollande, who was elected French president in May. Mr Hollande is only the second Socialist Party candidate to win the presidency since the start of France's Fifth Republic in 1958. His victory over the centre-right incumbent, Nicolas Sarkozy, came 31 years after François Mitterrand's in 1981. Mitterrand was re-elected in 1988, but during his 14-year presidency his party twice lost its majority in parliament. The Socialists' most recent stint in government was in 1997-2002, when Lionel Jospin served as prime minister in "cohabitation" with Jacques Chirac, Mr Sarkozy's predecessor.

Hollande's mandate

At least in theory, Mr Hollande is now more powerful than Mitterrand, and indeed than any Fifth Republic president since Charles de Gaulle. His party controls both parliamentary chambers and most of France's regions, departments and municipalities. The main centre-right opposition is fighting a bitter internal leadership campaign.

After the Socialists won the National Assembly election in June, Mr Hollande appointed Jean-Marc Ayrault, previously mayor of Nantes, as his prime minister. Both men lack ministerial experience, and indeed business experience, as do most members of their team. This may be one reason why they have run into so much criticism from French business for raising taxes.

Mr Hollande's victory was narrower than most opinion polls had predicted, and he owed it in large part to voters' dissatisfaction with Mr Sarkozy. As it happens, over the past two years most incumbent euro-zone governments have been turfed out by their electorates. But Mr Sarkozy also lost the voters' respect by making his a "bling-bling" presidency, starting with a flashy celebration party and an ostentatious yacht trip and continuing with a divorce from his wife of ten years and marriage to Carla Bruni, a singer and former model. In contrast, Mr Hollande campaigned under the reassuring label of "Mr Normal".

The trouble is that the times are not at all normal. During this year's two election campaigns, for the presidency and for parliament, both main parties largely ignored the dire condition of the French economy and the euro crisis, instead offering attacks on bankers, empty talk of greater social protection, a controversy over *halal* meat and the usual ragbag of promises. Mr Hollande has honoured as many of these as he can, including cuts in ministers' pay, a partial rollback of Mr Sarkozy's increase in the retirement age from 60 to 62 and the imposition of new taxes on companies and the rich, including a 75% top tax rate on incomes above €1m ($1.3m).

Yet Mr Hollande's approval rating has plunged even faster than Mr Sarkozy's did in 2007, to below 50%. In one recent poll, almost two-thirds of respondents said they were "discontented" with Mr Hollande's actions since his election. The mood of ordinary French people is, indeed, startlingly bleak. But then the French are born pessimists. In one poll in 2011 four-fifths of the German respondents were positive about the future whereas four-fifths of the French ones were negative. Another poll found that no other Europeans were as pessimistic as the French.

Liberal commentators, including this newspaper, fretted from the outset that Mr Hollande and his team had not grasped the nature and extent of the crisis facing France, still less understood the case for reforms that the economy so urgently needs. Some even drew parallels with the new Mitterrand government in 1981, which embarked on widespread nationalisations, a public-spending spree and an attempt to soak the rich through higher taxes. Back then the franc tumbled, and only two years later the Socialist government reversed course under the influence of Jacques Delors as finance minister.

Liberal commentators fretted that Mr Hollande had not grasped the nature and extent of the crisis facing France, still less understood the urgent need for reforms

Mr Hollande is no Mitterrand. Indeed, his first experience in politics was working with Mr Delors. Like him, he is on the right of the party, in many ways more of a European Social Democrat than a Socialist. He and Mr Ayrault (who speaks fluent German) are also fascinated by Germany's recent success. In Paris there is talk about the example of Gerhard Schröder, a Social Democratic German chancellor who in 2003 introduced a package of far-reaching reforms, including measures to liberalise the German labour market. But sceptics note that he waited until his second term to push through these reforms, and that he promptly lost the subsequent election.

It is widely held in France that in office the left often turns out to be more reformist than the right. In truth all parties in France are essentially statist in outlook, and true liberals are rare. Yet when Mr Jospin was prime minister, it was evident that a leftist government was capable of privatising and liberalising more than its centre-right predecessor, at least once it had brought in the symbolically important 35-hour working week. Certainly the left ought to be better at getting the unions to accept change.

Mr Hollande has begun to talk about French competitiveness, though he gave a lukewarm reception to the recent Gallois report on the subject. Despite his campaign calls for less austerity and his (swiftly broken) promise to renegotiate the European fiscal compact, he has repeatedly insisted that he will stick to his target of cutting the budget deficit for 2013 to 3% of GDP and aiming to reach balance in 2017. The budget in late September included just about enough tax increases and (more modest) spending cuts to satisfy the markets.

The biggest concern is not that Mr Hollande will repeat the Mitterrand government's extravagant follies of 1981. Nor is it any longer, as in May, that he refuses to admit that France is in economic difficulty. It is that on this occasion there is so little time for him to act. In 1981 the economy was growing, the budget deficit was small, the national debt stood at just 22% of GDP and France still had its own currency. Today the economy is at a standstill, the deficit is above the 3% ceiling, the debt is over 90% of GDP and France is in the euro zone. The euro crisis keeps going, and although France is still able to borrow at low cost, market sentiment can switch suddenly.

A favourite saying of Mitterrand's was that "*il faut donner du temps au temps*" (time must be given time to do its work). Mr Hollande has spoken of two years to pursue reforms. He may find he does not have even that long.

http://www.economist.com/news/leaders/21566640-why-france-could-become-biggest-danger-europes-single-currency-time-bomb-heart

France and the euro

The time-bomb at the heart of Europe

Why France could become the biggest danger to Europe's single currency

Nov 17th 2012 | from the print edition

THE threat of the euro's collapse has abated for the moment, but putting the single currency right will involve years of pain. The pressure for reform and budget cuts is fiercest in Greece, Portugal, Spain and Italy, which all saw mass strikes and clashes with police this week (see article). But ahead looms a bigger problem that could dwarf any of these: France.

The country has always been at the heart of the euro, as of the European Union. President François Mitterrand argued for the single currency because he hoped to bolster French influence in an EU that would otherwise fall under the sway of a unified Germany. France has gained from the euro: it is borrowing at record low rates and has avoided the troubles of the Mediterranean. Yet even before May, when François Hollande became the country's first Socialist president since Mitterrand, France had ceded leadership in the euro crisis to Germany. And now its economy looks increasingly vulnerable as well.

As our special report in this issue explains, France still has many strengths, but its weaknesses have been laid bare by the euro crisis. For years it has been losing competitiveness to Germany and the trend has accelerated as the Germans have cut costs and pushed through big reforms. Without the option of currency devaluation, France has resorted to public spending and debt. Even as other EU countries have curbed the reach of the state, it has grown in France to consume almost 57% of GDP, the highest share in the euro zone. Because of the failure to balance a single budget since 1981, public debt has risen from 22% of GDP then to over 90% now.

The business climate in France has also worsened. French firms are burdened by overly rigid labour- and product-market regulation, exceptionally high taxes and the euro zone's heaviest social charges on payrolls. Not surprisingly, new companies are rare. France has fewer small and medium-sized enterprises, today's engines of job growth, than Germany, Italy or Britain. The economy is stagnant, may tip into recession this quarter and will barely grow next year. Over 10% of the workforce, and over 25% of the young, are jobless. The external current-account deficit has swung from a small surplus in 1999 into one of the euro zone's biggest deficits. In short, too many of France's firms are uncompetitive and the country's bloated government is living beyond its means.

Hollande at bay

With enough boldness and grit, Mr Hollande could now reform France. His party holds power in the legislature and in almost all the regions. The left should be better able than the right to persuade the unions to accept change. Mr Hollande has acknowledged that France lacks competitiveness. And, encouragingly, he has recently promised to implement many of the changes recommended in a new report by Louis Gallois, a businessman, including reducing the burden of social charges on companies. The president wants to make the labour market more flexible. This week he even talked of the excessive size of the state, promising to "do better, while spending less".

Yet set against the gravity of France's economic problems, Mr Hollande still seems half-hearted. Why should business believe him when he has already pushed through a string of leftish measures, including a 75% top income-tax rate, increased taxes on companies, wealth, capital gains and dividends, a higher minimum wage and a partial rollback of a previously accepted rise in the pension age? No wonder so many would-be entrepreneurs are talking of leaving the country.

European governments that have undertaken big reforms have done so because there was a deep sense of crisis, because voters believed there was no alternative and because political leaders had the conviction that change was unavoidable. None of this describes Mr Hollande or France. During the election campaign, Mr Hollande barely mentioned the need for business-friendly reform, focusing instead on ending austerity. His Socialist Party remains unmodernised and hostile to capitalism: since he began to warn about France's competitiveness, his approval rating has plunged. Worse, France is aiming at a moving target. All euro-zone countries are making structural reforms, and mostly faster and more extensively than France is doing (see article). The IMF recently warned that France risks being left behind by Italy and Spain.

At stake is not just the future of France, but that of the euro. Mr Hollande has correctly badgered Angela Merkel for pushing austerity too hard. But he has hidden behind his napkin when it comes to the political integration needed to solve the euro crisis. There has to be greater European-level control over national economic policies. France has reluctantly ratified the recent fiscal compact, which gives Brussels extra budgetary powers. But neither the elite nor the voters are yet prepared to transfer more sovereignty, just as they are unprepared for deep structural reforms. While most countries discuss how much sovereignty they will have to give up, France is resolutely avoiding any debate on the future of Europe. Mr Hollande was badly burned in 2005 when voters rejected the EU constitutional treaty after his party split down the middle. A repeat of that would pitch the single currency into chaos.

Too big not to succeed?

Our most recent special report on a big European country (in June 2011) focused on Italy's failure to reform under Silvio Berlusconi; by the end of the year he was out—and change had begun. So far investors have been indulgent of France; indeed, long-term interest rates have fallen a bit. But sooner or later the centime will drop. You cannot defy economics for long.

Unless Mr Hollande shows that he is genuinely committed to changing the path his country has been on for the past 30 years, France will lose the faith of investors—and of Germany. As several euro-zone countries have found, sentiment in the markets can shift quickly. The crisis could hit as early as next year. Previous European currency upheavals have often started elsewhere only to finish by engulfing France—and this time, too, France rather than Italy or Spain could be where the euro's fate is decided. Mr Hollande does not have long to defuse the time-bomb at the heart of Europe.

http://www.huffingtonpost.fr/2012/11/15/the-economist-france-bombe-retardement-coeur-europe_n_2136645.html

The Economist se paye (encore) la France, une "bombe à retardement au coeur de l'Europe"

Le HuffPost/AFP | Publication: 15/11/2012 15:26 CET Mis à jour: 15/11/2012 16:04 CET

THE ECONOMIST - Après avoir dénoncé un supposé "déni" français avant la présidentielle, *The Economist*, influent et libéral hebdomadaire britannique du monde des affaires, estime en couverture de son numéro du 17 novembre que la France est une "bombe à retardement au cœur de l'Europe".

L'image qui illustre ce dossier spécial de 14 pages est éloquente: sept baguettes de pain entourées d'un ruban bleu-blanc-rouge, telles des bâtons de dynamite, reliées à une mèche allumée. Bref, prêtes à exploser.

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This week’s cover preview: The time-bomb at the heart of Europe. November 17th–23rd 2012

15 Nov 12

Selon le journal, "la France pourrait devenir le plus grand danger pour la monnaie unique européenne", et "la crise pourrait frapper dès l'an prochain".

The Economist est particulièrement virulent à l'encontre du nouveau président, François Hollande, et de son Premier ministre Jean-Marc Ayrault, tous deux socialistes. "Ni M. Hollande ni M. Ayrault ne semblent être le genre de leader suffisamment courageux, capable d'imposer des réformes à l'encontre d'une opposition généralisée", explique-t-il dans un communiqué. Et quoi de mieux qu'un dessin pour illustrer ce propos:

15 Nov 12

Si *The Economist* reconnaît que "le gouvernement a semblé devenir plus réaliste sur la gravité de la situation et comprendre la nécessité de réforme", notamment en faveur de la compétitivité, il n'en démord pas: "On peut craindre que ces récents changements d'orientation soient trop tardifs et insuffisants".

Du coup, même si les marchés ont été "indulgents" jusqu'ici, "tôt ou tard" le vent va tourner, estime-t-il. D'autant que, dans le même temps, Espagne, Italie et Grèce ont mis en place "de substantielles et douloureuses réformes structurelles".

Les griefs cités par *The Economist* sont nombreux: économie stagnante, chômage élevé, déficit commercial abyssal, poids de l'Etat "démesuré" et "un climat des affaires qui s'est détérioré", notamment avec les hausses d'impôts décidées par le président Hollande. Qui plus est, selon le journal, "l'élite et les électeurs ne sont pas prêts à de nouveaux transferts de souveraineté" au niveau européen.

The Economist avait déjà dépeint, pendant la campagne présidentielle, une France en plein "déni".

Critiquant tous les candidats, coupables à ses yeux d'"ignorer" la gravité de la situation économique, il avait particulièrement attaqué François Hollande, un "homme plutôt dangereux" dont la victoire était qualifiée de "mauvaise pour son pays et pour l'Europe".

http://www.lemonde.fr/economie/article/2012/11/15/la-france-souffre-douleur-prefere-de-the-economist_1791565_3234.html

La France, souffre douleur préféré de The Economist

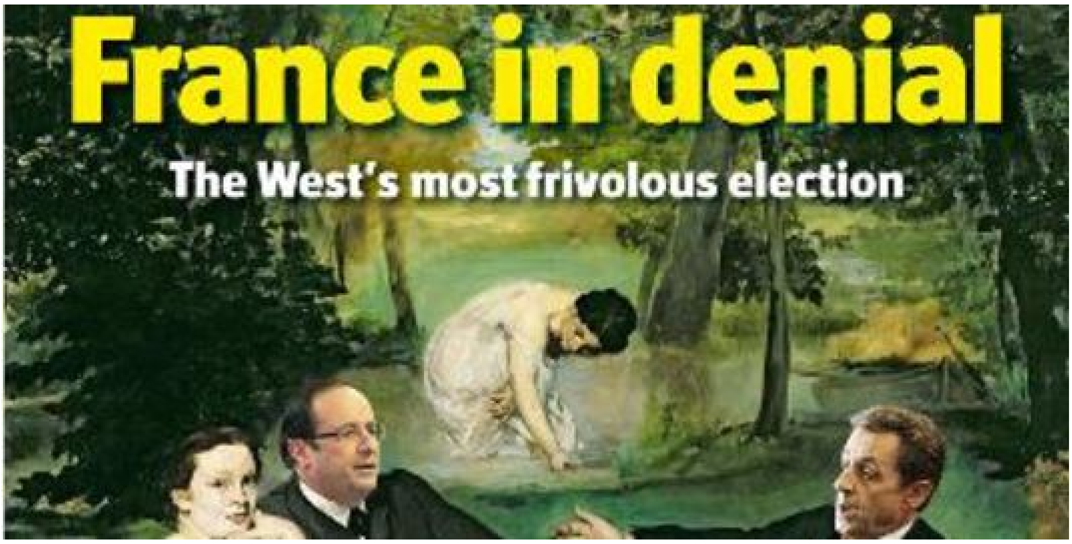
Le Monde.fr avec AFP | 15.11.2012 à 19h01

Et de trois. Après *"la France dans le déni"* et *"le dangereux M. Hollande"*, l'hebdomadaire britannique *The Economist* poursuit son *"French bashing"* (*bashing* : attaques dures, gratuites et préjudiciables). En couverture de son édition du 17 novembre, il estime que la France n'est rien de moins qu'une *"bombe à retardement au cœur de l'Europe"*.

Selon le journal libéral, *"la France pourrait devenir le plus grand danger pour la monnaie unique européenne"*, et *"la crise pourrait frapper dès l'an prochain"*. *The Economist* est particulièrement virulent à l'encontre du nouveau président socialiste, François Hollande, et de son premier ministre, Jean-Marc Ayrault. *"Ni M. Hollande ni M. Ayrault ne semblent être le genre de dirigeants suffisamment courageux, capables d'imposer des réformes à l'encontre d'une opposition généralisée"*, explique-t-il dans un communiqué.

Si *The Economist* reconnaît que *"le gouvernement a semblé devenir plus réaliste sur la gravité de la situation et comprendre la nécessité de réforme"*, notamment en faveur de la compétitivité, il n'en démord pas : *"On peut craindre que ces récents changements d'orientation soient trop tardifs et insuffisants."*

La liste des reproches égrenés par l'hebdomadaire est sans fin : économie stagnante, chômage élevé, déficit commercial abyssal, poids de l'Etat *"démesuré"* et *"un climat des affaires qui s'est détérioré"*, notamment avec les hausses d'impôt décidées par le président Hollande. Qui plus est, selon le journal, *"l'élite et les électeurs ne sont pas prêts à de nouveaux transferts de souveraineté"* au niveau européen.


France in denial
The West's most frivolous election


The rather dangerous Monsieur Hollande

http://www.economist.com/news/special-report/21566255-disagreements-germany-over-europe-could-spell-big-trouble-away-and-home

Foreign policy

Away and at home

Disagreements with Germany over Europe could spell big trouble

Nov 17th 2012 | from the print edition

The Merkozy show

RATHER LIKE BRITAIN, France has inherited the mindset of a world power with neither the reach nor the means of one. De Gaulle only partly succeeded in his life's ambition of restoring his country's lost glory. His intransigence ensured that France would be seen as a victor in the second world war and thus a rightful aspirant to a permanent seat on the United Nations Security Council. But his decisions as president in the 1960s to leave NATO's military-command structure and to keep an independent nuclear deterrent at any price did little to help France's global pretensions.

Even so, a mid-sized power with special links across Africa is not insignificant. Under the energetic Mr Sarkozy, France played a global role when it held the EU's rotating presidency in 2008 during Russia's invasion of Georgia, and then again in 2011 when it was president of the G8 and G20 during some of the darker moments of the financial crisis. In 2011 France and Britain also led the military intervention in Libya.

The French have gone into several African countries on their own and played a decidedly inglorious role in Rwanda in the 1990s. They are mulling some kind of intervention in Mali. Yet recent talk by Mr Hollande of taking action in Syria is unlikely to go anywhere, partly because there is little enthusiasm for it, but also because defence cuts have undermined France's military capacity. The future must lie in more defence co-operation with Britain, the only other European country with global aspirations.

At least France retains a pivotal role in the European Union. A founder member of the then European Economic Community, it will in January celebrate the 50th anniversary of the Elysée treaty with former West Germany that established the Franco-German relationship as the driver of the project. You only have to visit the ossuary at the 1916 battlefield of Verdun, site of a famous handholding between Helmut Kohl and François Mitterrand in 1984, to see the importance to Europe of Franco-German reconciliation. Even if the French have not always controlled the Brussels machinery on their own, they have been much better than the Germans at bagging big jobs: president of the European Commission (twice), the commission's secretary-general (for almost 30 years), and successive chief legal advisers at the Council of Ministers. They have also fiercely insisted, against much opposition, on keeping the European Parliament in Strasbourg.

Yet France and the French have always been ambivalent about Europe. De Gaulle himself was never comfortable with the EEC. He managed not only to keep Britain out but also to secure an effective French veto under the 1966 Luxembourg compromise. The Maastricht treaty that paved the way for the single currency was largely the brainchild of Mitterrand, whose price for accepting German unification was Germany's abandonment of the D-mark in favour of a single currency over which France hoped to have more control. But when he put the treaty to a referendum of his countrymen in September 1992, it was approved by only a wafer-thin majority.

More dramatic still was the 2005 referendum on the draft constitutional treaty for the EU, drawn up by a convention chaired by a former president, Valéry Giscard d'Estaing. The result was a resounding "no", after a campaign in which French voters for the first time debated the EU's laws and practices—and took a dislike to an organisation that seemed far too keen on free movement of labour from poorer countries to the east, on free-market liberalism in general and on the supposed benefits of greater competition. Rather like the British, the French have never warmed to the idea of ceding sovereignty to Brussels.

Not French enough

Many French politicians believe that the EU has changed from a project that was designed partly in France's interests—for example, getting German taxpayers to pay a large chunk of subsidies to French farmers—into one that frequently acts against them. They are painfully aware that France has less influence in an EU of 27 countries than it did in one of six, nine or 15, whereas a unified Germany has a lot more. Even the French language, once dominant in the corridors of Brussels, has lost out to English. To some in Paris this is symptomatic of the triumph of Anglo-Saxon liberalism inside the European institutions. France led the opposition to the notorious (in Paris) "Bolkestein" directive that tried unsuccessfully to free up EU trade in services (and enrich the continent).

This is not a left-right issue. Bruno Le Maire, a conservative who was Mr Sarkozy's agriculture minister, attacks the EU for being too concerned to protect consumers instead of producers and jobs. He cites EU rules that prevent schools in Normandy from buying locally grown but more expensive apples for their meals. He denounces the EU as more liberal even than the United States. And he says he would like to rebuild a (presumably rather less open) new grouping around the euro zone of 17, not the current EU of 27. He might find himself in surprising agreement with Arnaud Montebourg, the left-leaning minister for productive recovery. Mr Montebourg believes that EU laws and regulations inhibit the sort of proactive industrial policy he favours. He accuses the EU of the "Talmudic application of rules designed 50 years ago". Although the French left has traditionally been more pro-European than the French right, that is by no means true across the spectrum.

This sharpens the dilemmas facing Mr Hollande over the EU and the euro crisis. The 2005 referendum was undoubtedly Mr Hollande's most traumatic political experience. As first secretary of the Socialist Party he was strongly in favour of the constitutional treaty, but many in his party ignored him and it split down the middle, with Laurent Fabius, a former prime minister, leading the "no" campaign. As it happens, Mr Hollande has chosen to make Mr Fabius his foreign minister. His Europe minister, Bernard Cazeneuve, also voted no in 2005.

A dispute between the Germans and the French over moves towards political union could turn into a huge obstacle to resolving the euro crisis

Mr Hollande himself is instinctively pro-European, far more so than Mr Sarkozy—and it is the Elysée that largely sets France's policy on Europe. Yet he and his officials know that, **thanks to the euro crisis, the Franco-German relationship has become hugely unbalanced in Germany's favour**. It is Angela Merkel, the German chancellor, who calls the tune in negotiations over the future of the single currency, and thus of the EU more broadly. And her cures for the euro crisis—ever greater fiscal austerity, more structural reforms to promote competition, faster moves towards political and economic union—are not naturally welcomed in Paris.

So Mr Hollande is scrabbling to strengthen his position relative to Germany. Charles Grant of the London-based Centre for European Reform believes that he is trying to achieve that in three ways. One is to forge stronger links with Mediterranean countries, especially Italy and Spain, to form a block that could help to counter Mrs Merkel. Naturally that has upset her. Mr Sarkozy preferred to stick closely to Mrs Merkel (hence the label "Merkozy"), not least to identify France with the north and keep the markets happy. Mr Hollande likes to straddle both sides: as his Europe minister puts it, France is the hyphen in Europe's north-south division.

Second, Mr Hollande wants to meet the targets set in the European fiscal-compact treaty, which the French parliament has just ratified. And third, he is aiming to raise the French economy's performance by improving its competitiveness. But it will take long and hard toil for France to regain its economic and financial clout when measured against Germany.

Then there is the tricky issue of closer political union. As the euro crisis drags interminably on, many political leaders have concluded that the only alternative to a break-up is closer economic and fiscal integration. The Germans believe that the mistake was that the economic and political union promised at Maastricht was never completed, leaving a single currency with neither common fiscal rules nor a proper system of economic governance. As one German official puts it, "**if they want our taxpayers' money, we have to control how it is used.**" So if the euro is to be saved through a banking union, common bank deposit insurance or, eventually, some form of debt mutualisation, in exchange the Germans want a commitment now to a deeper political union, including a new EU treaty.

Non, Angela

Mr Hollande's new government is looking for a different timetable and a different sequence of events. The buzz-phrase in Paris is not political union but ***intégration solidaire*.** This starts from the assertion that France has made a huge sacrifice of sovereignty by accepting the budgetary austerity inherent in the fiscal compact. The next steps ought to be, first, to put fresh emphasis on growth instead of on austerity alone; and then to ensure that the European Central Bank stands fully behind euro-zone governments' sovereign debt. There should also be more rapid moves towards a banking union and the issuing of eurobonds. Only after this "solidarity" is in place might it be right to debate deeper political integration.

Yet that debate, though still largely taboo in Paris, has already begun in Berlin and Brussels. A group led by the German foreign minister, Guido Westerwelle, has proposed majority voting in foreign policy, a European army, an elected European Commission president and more powers for the European Parliament. José Manuel Barroso, the current commission president, has called for a fuller "federation of nation-states". Such talk is airily dismissed in France, where it is said that, whenever Europe is going through a crisis, the Germans and the commission start talking about political union without really meaning it.

However, this time may be different. **A dispute between the Germans and the French over moves towards political union could turn into a huge obstacle to resolving the euro crisis**. In effect, **the Germans are saying they will not lend their credit card to other euro members without a prior commitment to much tougher controls and deeper political integration. The French insist the euro zone needs Germany's credit card now, and they are not ready to discuss more integration until later.** These opposing positions could cause a serious impasse. Logic suggests the Germans will prevail, **but French obstructiveness could be costly.**

http://www.nytimes.com/2011/01/16/magazine/16MerkelSarkozy-t.html?pagewanted=all

January 13, 2011

Europe’s Odd Couple

By STEVEN ERLANGER

SHE MAKES FUN, in private, of the way he walks and talks, of his rapid, jerky gestures and facial grimaces. He mocks her deliberation, her reluctance, her matronly caution. She has compared him to Mr. Bean and to the French comic Louis de Funès, with his curly hair and large nose. He sometimes calls her *La Boche*, the offensive French version of “Kraut,” and goes out of his way to give her an embrace and a double-cheeked kiss in the French fashion, the kind of contact that he knows very well, aides say, she cannot stand.

While the agonies of the European Union — sovereign defaults, deficits and bubbles — unfold like a great wonk drama, at their core is something more intimate: the fractured tale of Angela Merkel and Nicolas Sarkozy. They have been photographed across Europe giving the appearance of happy partnership. They are the best hope Europe has for continued unity. But they do not like each other at all.

As with any couple in trouble, economic difficulty has added to the strain. Two years ago, at the beginning of the crisis, Sarkozy burst out in public, saying, “France is acting, while Germany is only thinking about it!” Later, before a European Union meeting in Brussels on the Greek bailout, the French president was in a rage at his inability to persuade Merkel to do more for that country. After yelling at the E.U.’s president, Herman Van Rompuy, he threatened to boycott the meeting, muttering, according to French officials, “The Germans haven’t changed.” Later, when Sarkozy took camera crews in with him to a meeting, Merkel insisted they leave and, aides said, told Sarkozy, “I won’t let you do this to me.”

So it is not an easy relationship. But they know that they need to keep going for the sake of the kids — that is, for the sake of Europe. They have instructed their top foreign-policy advisers, Jean-David Levitte and Christoph Heusgen, both consummate diplomats, to make the relationship function. Some of the symbolism is a stretch — joint cabinet meetings, ceremonies at the Arc de Triomphe and the Berlin Wall. But there is an extraordinarily close coordination between the two staffs, and before every major European Union summit meeting, Sarkozy and Merkel hash out a joint position to take to the other 25 member states. This isn’t very democratic; it probably isn’t very pleasant either. Yet if the European Union is to function, Sarkozy and Merkel have to get along.

The Sarkozy-Merkel relationship matters because the challenges they and Europe face are both enormous and complicated, combining dismal economics, national pride and anxious electorates. They need to work out whether states that share a currency can still have independent fiscal policies — or, put differently, whether a currency union is viable without economic and even political union, and if it isn’t, whether it should be preserved. Behind this seemingly technocratic challenge, of course, are profound questions of democracy and citizenship, of national identity and self-determination and of the right way to handle Europe’s many ghosts.

Consider the meeting of Sarkozy and Merkel last October at the French seaside resort of Deauville. As they walked on the beach, they considered how to stabilize the European economy. The European Financial Stabilization Facility had kept Greece and Ireland from collapse, but it was ad hoc. Sarkozy wanted to extend it without touching the E.U.’s basic treaty. Merkel said that, constitutionally, she could not commit Germany to such an indefinite responsibility without a treaty change. She also did not want private investors to think that their national-bond investments were guaranteed a bailout if things went bad; she wanted private bondholders to face the prospect of a “haircut,” as the phrase goes, in the event of default.

Merkel committed herself to a permanent financial backstop, one whose stability would inevitably be based on the stability and solvency of Germany itself. Sarkozy agreed that with the new mechanism, beginning in 2013, investors would take some of the losses on bonds in insolvent euro-zone nations. That implied that some countries could actually default, and gave a strong signal to investors not to put money after 2013 in the bonds of countries like Greece, Spain or Portugal. The decision infuriated the European Central Bank chief, Jean-Claude Trichet, who predicted, accurately, that it would shake the markets and endanger Ireland.

But there was little Trichet or the plan's many other opponents could do. Merkel is determined to make fiscal discipline the price of German credit. While Merkel did agree to drop her proposal for automatic penalties for countries that broke fiscal rules, she also refused to consider suggestions for a general "Eurobond" backed by all members. Many European countries like the idea of a Eurobond, because it might prevent private markets from trading on the differences between national economies and policies. But it would do so, ultimately, because of the strength of the German economy and its government's own legendary prudence (and it would raise Germany's own borrowing costs). That was not an obligation Germans wanted to take on. So Merkel said no.

As Ulrike Guérot, a German analyst once married to a Frenchman, puts it, Germans "sublimated hegemony. But we're dropping the sublimation now." She laughed, then added: "Of course, this doesn't sound nice to others."

A senior German official, however, says Sarkozy's ambition to lead and his taste for big ideas — like his plans for the G20 this year to re-examine the role of the dollar and the regulation of food markets — are attractive and help Merkel. "She brings him down from 120 percent to 75 percent, and then they try to do half of that," he told me. Sarkozy also sees an important role for himself in tethering Germany to the European Union, helping Merkel to resist demands at home that Germany stop financing anyone else. Anne-Marie Le Gloannec, a political scientist and German specialist at the Institut d'Études Politiques in Paris, says: "Sarkozy is catching Merkel from floating Germany too far away, compromising to try to pull her back into the European framework. But she needs this, too."

BORN ONLY SIX months apart, the two could not be more different in terms of personality and worldview. Merkel, 56, grew up in a left-wing household in the farthest northeastern corner of Communist East Germany, in the Protestant flatlands where the Russian wind whistles. She learned to speak Russian and Czech. She is a physicist; her second husband is a chemist, a quiet professor who keeps to himself; she has no children. After the unification of Germany, she was an apprentice to Helmut Kohl, his "underestimated maiden" from the East, and she moved to Berlin — itself considered un-German, in a way, conquered territory on what is thought of as the barbarian steppe, far from the rich soil of German culture.

It was from Chancellor Kohl that she learned the importance of pandering to French vanities about being the true beating heart of the European ideal. And then when Kohl got into trouble, his Eastern maiden became Germany's first female chancellor.

That is when she had to face Sarkozy. "She's a scientist, almost like a German cliché, planning everything, going step by step, unemotional, not a show horse," Stefan Kornelius, a senior editor of the Süddeutsche Zeitung, told me. "But Sarkozy's the kind of macho man that she doesn't like at all. And she and the chancellery are irritated by his jumping from issue to issue, his lack of attention, his inability to do German systematic work. She's a technocrat with a hidden husband, and he's flamboyant, with a beautiful woman" — the singer and former model Carla Bruni — "at his side."

Sarkozy has been much criticized for his love of money and gaudiness. A wealthy lawyer with wealthy friends, he lives a gilded French presidential life, surrounded by staff members always ready with a glass of freshly squeezed orange juice. Merkel still lives in the central Berlin apartment she occupied before her election and can sometimes be seen out shopping, or stopping into a favorite French-style restaurant, Borchardt, for a quick meal with her husband.

Merkel has surrounded herself with strong women and technocratic men, and she manages men very well, a senior German official told me: "She takes them by their biggest weakness, which is ego, and caters to it to a point, and then coldbloodedly, like an aikido fighter, uses that energy and pulls it in her direction. She doesn't function in terms of male mechanics, all ego and pumping up yourself and shouting; these male tools fail with her, and she uses these to her advantage. And those who team up with her, she lets take a lot of the credit." It sounds similar to how she handles the French president. Unlike Sarkozy, famous for absorbing a complicated brief as he walks to a meeting, Merkel is an assiduous worker and normally the best-prepared person in the room. Sarkozy rules France like a king; Merkel is a coalition politician who wants to bring others along. The Germans like to tell a joke about Sarkozy piloting a plane and informing the passengers he has good news and bad news: “The good news is that we’re ahead of schedule. The bad news is that we’re lost.”

There was a time when the trans-Atlantic tie enabled Europeans to find direction in the world as part of an American-led, American-protected liberal West. That moment seems to have passed, leaving Europe to find its own way. The United States never did take more than a mild interest in European unification. In a meeting with European journalists in 2005, President Bush said airily that he appreciated “how hard it was to get a federalist system in place that was balanced and fair,” adding that “every time I meet with the European leaders, I ask them how it’s going.” President Obama’s approach has not been much different, particularly as the Europeans have made it clear they are not eager to help solve the Afghanistan problem. In general, the Obama attitude has been: Europe, lovely place; European Union, lovely idea but wish it would do more on defense; euro, well, good luck with that.

FRANCE AND GERMANY, with their shared bloody past, are unlikely allies, and they have radically different notions of how Europe should work. France wants a state-dominated, centralized, bureaucratic Europe in its own image. France also maintains a Mediterranean attitude toward budget deficits, having last balanced a budget 35 years ago. Germany, a federal state with powerful regions, coalition governments and an influential constitutional court, wants a Europe of laws, discipline and fiscal probity, with a strong currency and real penalties for the spendthrift.

Long the financier of the European Union, Germany has made it clear that it will no longer pay for the mistakes and frauds of others. While Germany has always acted in its own interests, the Kohl generation interpreted those interests as being embedded in institutions like NATO and the European Union, which protected the new democratic Germany and kept its ambitions in check. But Germany, reunited, sees NATO as less necessary, even hollow. It needs the European Union less. And it is turning more toward the east — the old Soviet bloc and Russia — for energy and markets.

If centralized France has traditionally supported European Union institutions and currently advocates a form of “European economic governance,” federal Germany has become much less willing to subordinate national interests to European ones and has been a strong defender of national sovereignty, especially over budgets. In a recent speech in Bruges, Merkel spoke of the need to move away from “the community method,” led by the European Union’s Commission, to what she called “the union method,” in which the nation-states effectively take the lead in cooperating with the Commission and other E.U. institutions. “The ‘community method’ can only be applied in those areas in which the European Union actually has competence,” she said tersely, adding: “Where the community has no competence, the ‘community method’ clearly cannot be applied.” In other words, the E.U. should do only what it is authorized to do and can do well. Otherwise power should remain with the states.

If Germany speaks for Europe’s largely industrial Protestant north, France has always combined north and agricultural south. “Sarkozy is being the spokesman for the south, but he also understands that Germany has the clout,” Le Gloannec says. “So you have to say yes to some of what they want, but at the same time Germany can’t talk to all Europeans or take a public leadership role. In a way, the Germans really don’t know how to talk to others. She and he may be like Laurel and Hardy — different but complementary.”

As the euro crisis grinds on and the German economy continues to outpace the others, Sarkozy is paying more attention to the German model and giving in more to German demands. He is extremely anxious, aides say, that France is losing its prominence in the new Europe, slipping behind Germany to second-class status. Inside the French cabinet, Germany’s economic model, labor relations and capacity for technical innovation are prominent topics, with German standards — and the fear of losing Paris’s AAA bond rating — driving French reforms and budget cuts.

The cliché used to be that nothing happened in the European Union without French and German agreement. Today France and Germany are regarded as necessary but no longer sufficient. Sarkozy fears, with some justification in a bigger European Union of 27 nations and a euro zone of 17, that French agreement may soon not be needed at all. The new E.U. members to the east are more German in their aspirations than French. The Czechs and Slovaks, as well as the Balts, are all fiscally conservative. Even Poland, which has such an emotional tie to France, sees its economic future with Germany.

THE FUNDAMENTAL problem is that Germans are worried that their manifold sacrifices for national prosperity will be dumped down the drain of Europe's poorest and most profligate. Despite Germany's economic success — almost a second economic miracle, after the expensive absorption of East Germany — Merkel therefore has serious political challenges. "The Germans have discovered that they are the only serious global economy in Europe, capable of competing with the United States and China," says John Kornblum, a former American ambassador to Germany. "But they're afraid their world is coming apart around them, and what they thought would support them, the European Union, is dragging them down. They realized that the stability pact isn't working, that the Greeks were lying and maybe others, too, that their banks and French banks were deep in the muck, and they understood this is going to cost a lot of money. So they are behaving in a very demanding way, which smells to some like nationalism. But it really is fear."

So while Merkel says she is deeply committed to the European Union and the euro, she must, as a politician, manage the angst. A strong minority of Germans feel she has already gone too far down the road of bailing out Europe's "Club Med." State elections in 2011 could further hamper her ability to make bold decisions to protect European unity. And she must always be mindful of the German constitutional court, which plays a very strong role in interpreting treaties like those that bind Germany to the E.U.

Sarkozy's political problems are also legion and likely to worsen as austerity programs bite. To win re-election in 2012, Sarkozy needs first to reunite the right behind him, in the face of a vibrant challenge from the far-right National Front and divisions within his own center-right party. His main opposition, the Socialist Party, is divided, and both France and Germany are waiting to see if Dominique Strauss-Kahn, the managing director of the International Monetary Fund, will run for the Socialist nomination. It was Sarkozy who pushed Strauss-Kahn to take the I.M.F. job, figuring he was getting a rival out of the way. But the euro crisis has made Strauss-Kahn, 61, even more important, giving him the international reputation and gravitas to challenge Sarkozy and even win. While Sarkozy tried to keep the I.M.F. and Strauss-Kahn at a distance — the I.M.F. is based in Washington — Merkel insisted that only the I.M.F. had the experience to make the Greek salvage operation credible. Strauss-Kahn has been crucial to the Irish bailout as well and will have a strong part in any future defense of the euro. He is a German speaker and has been a key negotiator with Merkel. With a German almost sure to take over leadership of the European Central Bank in November, and another German due to take over the secretariat of the European Union's Council of Ministers, there should be even more support for Merkel's vision.

With Germany ascendant and looking both inward and eastward, Britain staying out of the euro zone and France carrying less weight, the question of German leadership is now at the fore. Germany has traditionally avoided trying to lead Europe from the front; memories from World War II, though faded, have not yet gone away in the rest of the continent. Even now, anti-German feeling is rising among Greeks, Portuguese and Spaniards, who feel abandoned, even betrayed, by Berlin.

Still, Merkel is going to have to exercise more leadership if the euro is going to be saved, even if she still hides to some degree behind France. And active German leadership of the E.U. means a clearer understanding that politically difficult compromises are going to have to be made and that money will have to be spent and promised — all in the face of growing German discontent.

John Kornblum, the former American ambassador in Berlin and still a resident there, sees a model for Germany in the United States and the way it helped keep Europe together after the war, mediating disputes and finding compromises. "The Germans don't see it yet," he says. "But they will have to take on the role of the United States in Europe, and have the same kind of balancing role we had for such a long time." At that point, Germany's marriage with France won't matter so much anymore.

Steven Erlanger is the Paris bureau chief for The New York Times and a former bureau chief for The Times in Berlin.

http://www.cfr.org/eu/growing-franco-german-divide/p29348

Interview **Councel of Foreign Relations**

Interviewee: Jacob Funk Kirkegaard, Senior Fellow, Peterson Institute for International Economics
Interviewer: Christopher Alessi, Online Editor/Writer
October 24, 2012

The Growing Franco-German Divide

Interviewee: Jacob Funk Kirkegaard, Senior Fellow, Peterson Institute for International Economics
Interviewer: Christopher Alessi, Online Editor/Writer
October 24, 2012

As European leaders continue to hash out policy responses to the ongoing eurozone debt crisis while facilitating further EU integration, divisions between the EU's traditional pillars of Germany and France have intensified. French President François Hollande has publicly opposed German Chancellor Angela Merkel's strict austerity approach to the crisis and has resisted German proposals for a so-called EU budget tsar, even as Merkel has rejected Hollande's call for euro bonds. Still, both sides recently reached an agreement at the EU leaders' summit in Brussels, held on October 18-19, to move ahead with plans to develop a banking union (*Guardian*). The Peterson Institute's Jacob Funk Kirkegaard says that while Hollande may rhetorically oppose Merkel's measures, he has acquiesced to many of her policy prescriptions, including austerity, since his election in May. Moreover, "until Hollande develops a coherent vision for where France would like Europe to go, and how he foresees that process developing, the Franco-German relationship is going to be less important than it was in previous periods of European integration," Kirkegaard says.

Can you sum up the German and French approaches to the eurozone crisis? What are the key issues that are dividing Paris and Berlin, and how have they been exacerbated since the election of Hollande earlier this year?

The German approach to the crisis is quite straightforward: tough love. Germany is entirely willing to provide significant financial support to other euro area countries, but only in return for fiscal austerity and structural reforms in these countries, as well as commitments to deeper political integration in the euro area. There's a very clear quid pro quo here between Germany and the peripheral countries in the euro area. It is an approach that, by and large, is in line with many of the demands of the European Central Bank. One of the reasons why the German view has tended to prevail almost invariably throughout this crisis is because there has been on many of these issues a very strong alliance between Germany and the ECB.

With respect to how that compares to France, I don't think there really is a succinctly crystallized French view of the crisis. Certainly Nicolas Sarkozy's crisis management technique was to basically align himself with Merkel, while Hollande, during his election campaign [in 2012], very forcefully, and in direct response to Sarkozy's close alliance with Merkel, articulated that France needs to be more independent of Germany. He [argued for] fiscal stimulus [over] more austerity. At least rhetorically, he is viewed as being much more confrontational vis-à-vis Germany and Merkel. It's not really clear what the practical implications of this have been. Hollande may have campaigned on [policies] to end to austerity and return to fiscal stimulus, but the reality is that once he was elected and once the French parliamentary election was over, he actually reverted back and has just pushed through an austerity budget in France with the consolidation of about €30 billion. And he has just pushed through the fiscal compact, which was, of course, very much Merkel's idea.

What are some of the main takeaways from last week's EU leaders' summit? And what's to be made of the tentative agreement on moving forward with a banking union/supervisor?

The EU summit got it about right on the banking union. They have committed to reaching a political agreement on how to do it by the end of this year, which is very rapid.

The EU summit got it about right on the banking union. They have committed to reaching a political agreement on how to do it by the end of this year, which is very rapid. We have to remember that that means it has taken the European Union only six months from when the political need for significant financial banking regulatory reform was acknowledged at the EU Council in June. On the substance of the banking union, the European Council was very positive because it basically endorsed the European Commission's earlier proposal, which calls for a banking union that includes all European banks, and is as open as possible for non-euro members. Both of these things mean that there are short-term political obstacles. How are you going to accommodate non-euro members at the ECB? As a regulator, what is the role of the European Banking Authority versus the ECB? So there are a lot of institutional and political challenges here. European leaders also [enabled] the European commission [to] proceed with making proposals for the other overall components of the banking union, including a joint resolution scheme [or an agreed-upon method for winding down failing banks] and deposit insurance.

Can you speak to the issues that weren't touched upon, or were postponed, like the idea of greater EU control over national budgets?

Germany basically said we should have a super commissioner in the European Commission with the authority to overrule national government's budgeting, which is essentially another version of political union--a longstanding German demand for the European Union. It is completely wrong to believe that a budget tsar, or a European Commission super commissioner for national budgets, would have any credibility if that person was merely a bureaucrat. [European Council President Herman Van Rompuy and High Representative of the European Union for Foreign Affairs and Security Policy Catherine Ashton are unelected officials--*Ed*.] That simply would not be democratically legitimate. So what the Germans are really saying is that this person needs to have direct, democratic legitimacy. [It] needs to be an elected official, which is another way of saying that you need to [construct] in Europe entirely new political institutions in order for this to work. What [Germany is] proposing is political union, hand-in-hand with fiscal union, for the euro area.

Why are the French resistant to German calls for a so-called budget tsar?

French opposition to German proposals for more political union is essentially a reflection of very long-standing positions and clashes between France and Germany that we have seen over many decades in the EU.

This basically is a reflection of are very long-standing opposing positions of France and Germany. Germany has always had this quid pro quo position that it wants much more political union and fiscal union [in exchange for] financial assistance.

Germany is a federal state, [and] quite comfortable with multiple layers of elected government. In that sense, the European political union would just be another layer. In France, the historical positions on EU integration have been very much the opposite. France has always advocated the need for more fiscal integration, ultimately culminating in euro bonds and those types of measures, but has always resisted handing over national sovereignty and joining a political union. The French domestic political system is very different. The French president is a president that has much more power than the U.S. president, [and] the French parliament has absolute authority over all policy areas in France and can dictate what regional governments do. Therefore, sovereignty in France is a much more touchy issue and it is much more difficult for the French to give it up in return for more fiscal and financial integration in the euro area. French opposition to German proposals for more political union is essentially a reflection of very long-standing positions and clashes between France and Germany that we have seen over many decades in the EU.

What are the potential areas for compromise between Germany and France in terms of next steps in managing the euro crisis and facilitating further EU integration?

The areas of compromise are very large. The big project for next year that has practical implications is the banking union. That is where the actual changes and regulatory shifts will be focused. That will first focus on integrating supervision. After that, you will have an integration of the resolution and deposit insurance components of the banking union, which essentially means that there is sequencing here. But there's also a sequencing in the banking union and the other building blocks [European Council President Herman] Van

Rompuy and others identified in his interim report for the Council about the need for further fiscal integration. Van Rompuy's report talks about the creation of an independent eurozone budget and the introduction of things like euro bills or short-term joint debt in the euro area. It is very clear that the broad focus is going to be about more integration in the euro area.

The affiliated question to that is, where does that leave the non-euro members of the EU? I believe quite strongly that ultimately all of the EU members [that are not currently part of the] euro area will [adopt] the euro, except the UK. So the real question is, what relationship is the UK going to have with the European Union as the euro area expands and integrates, while the UK is not a member?

More broadly, how central is the Franco-German axis to the European project and to the eurozone?

The actual influence of France is a lot smaller than it has been in the past, because Germany is the financial and economic anchor of Europe and has a more important role to play.

There's no doubt that the Franco-German axis is absolutely critical for European integration to move forward. And that has historically been the case; it's always been the locomotive. But there is an important element that is quite different this time around, relative to earlier periods of euro area integration. The earlier European processes of European integration and institutions were reflecting a political vision of a unified Europe. That was a vision that was ultimately the outcome of Franco-German compromise. But the process that we're in right now is quite different because the [current process] is not an integration that is driven by political vision; it is an integration that is driven by political, economic, and financial necessity. It's the recognition that the euro area needs to reform its basic institutions in order to survive, in order to be viable. In that process, it is perhaps less obvious that France and Germany need to agree before anything can happen, which is another way of saying that in this process the actual influence of France is a lot smaller than it has been in the past, because Germany is the financial and economic anchor of Europe and has a more important role to play. Germany is a sort of veto player in Europe right now. Germany is the country that has a much more developed, long-term vision for where they want to take the euro area when you compare it to France. Until Hollande develops a coherent vision for where France would like Europe to go, and how he foresees that process developing, the Franco-German relationship is going to be less important than it was in previous periods of European integration. In its place is going to be a much more dominant Germany.

http://www.bloomberg.com/news/2012-11-20/french-downgrade-widens-gulf-with-germany-amid-eu-budget-dispute.html

French Downgrade Widens Gulf With Germany as Talks Loom: Economy

By James Hertling and Leon Mangasarian - Nov 20, 2012 1:12 PM GMT+0100

France's loss of the top credit rating at Moody's Investors Service may weaken President Francois Hollande's leverage in European budget talks and deepen concern in Germany over its neighbor's lagging competitiveness.

The downgrade late yesterday of Europe's second-biggest economy underscores the concern expressed by allies of German Chancellor Angela Merkel that the Socialist Hollande's failure to recognize the urgency of France's woes risks a deepening of Europe's slump.

With French bonds rallying since Standard & Poor's stripped the country of its AAA credit rating in January, the impact of the Moody's downgrade may be more political than financial. Photographer: Balint Porneczi/Bloomberg

Nov. 20 (Bloomberg) -- Bill Blain, a strategist at Mint Partners Ltd., talks about the loss of France's top credit rating at Moody's Investors Service. He speaks with Mark Barton on Bloomberg Television's "Countdown." (Source: Bloomberg)

Nov. 20 (Bloomberg) -- French Finance Minister Pierre Moscovici talks about Moody's Investors Service's decision to downgrade France to Aa1 from Aaa. He spoke with Bloomberg Television's Caroline Connan in Paris. (Source: Bloomberg)

France lost its top credit rating at Moody's Investors Service, which also maintained a negative outlook for Europe's second-largest economy, citing what it called a worsening growth outlook.

Nov. 20 (Bloomberg) -- Erik Nielsen, chief global economist at UniCredit SpA, talks about the euro-zone debt crisis, the so-called U.S. fiscal cliff and Federal Reserve monetary policy. He speaks with Tom Keene and Sara Eisen on Bloomberg Television's "Surveillance." Richard Falkenrath, a principal at the Chertoff Group and a Bloomberg Television contributing editor, also speaks. (Source: Bloomberg)

French President Francois Hollande And German Chancellor Angela Merkel. Photographer: Michele Tantussi/Bloomberg

"This downgrade will certainly increase pressure on France big-time," Jan Techau, director of the Carnegie Endowment for International Peace office in Brussels, said today in a phone interview. "It gives Germany more of an edge over France."

With French bonds rallying since Standard & Poor's stripped the country of its AAA credit rating in January, the impact of the Moody's downgrade may be more political than financial. Just last week, German Finance Minister Wolfgang Schaeuble spoke out against his countrymen calling France the "sick man" of Europe. The day before, France's Liberation newspaper ran a front-page article highlighting German anxiety about Hollande's policies.

"Our most important partner has received a little bit of an admonishing assessment from a rating agency -- but France's rating is still very stable," Schaeuble said in speech to parliament in Berlin today.

French debt fell today, with 10-year yields rising 5 basis points to 2.12 percent, though that's still close to the record low of 2.002 percent reached Aug. 3, showing investors don't share German concerns.

Confidence Comment

The spread between French and German government 10-year debt is about 72 basis points, down from more than 200 basis points a year ago and 143 basis points when Hollande took office in mid-May.

"I don't want to downplay this decision, but France remains one of the top-rated countries," French Finance Minister Pierre Moscovici said at a press conference today in Paris. "There will not be a loss of confidence between France and Germany."

Heading into a summit beginning Nov. 22 in Brussels to deliver the next seven-year European Union budget, France has opposed proposals to cut farm spending as unacceptable, while Germany is seeking to contain EU expenditures.

Start Reforms

France is Germany's closest partner in Europe and it "would be good if the Socialists there would courageously initiate real structural reforms now," said Volker Kauder, head of the parliamentary group of Merkel's Christian Union bloc, according to a Spiegel magazine report this month. Germany would like Hollande to "move a little more" toward Merkel, Kauder was quoted as saying.

Hollande has mainly moved in the opposite direction. He lowered the retirement age for some workers, imposed a tax of 75 percent on earnings over 1 million euros ($1.28 million) and lifted the minimum wage. He has also consistently pressed Merkel to ease her push for austerity to fight Europe's three-year-old debt crisis.

France is on track to roughly match last year's record trade deficit, according to the Finance Ministry, and unemployment has jumped to a 13-year high as companies such as PSA Peugeot Citroen (UG) SA and Alcatel-Lucent (ALU) slash thousands of jobs.

France's benchmark unemployment rate rose to a 13-year high of 10.2 percent in the second quarter as the economy suffered its first contraction since 2009 before rebounding in the following three months.

German Performance

By contrast, Germany has sustained economic growth all year so far and the Federal Labor Agency's key unemployment rate was at a two-decade low in August before it rose by 0.1 percentage point to 6.9 percent the next month.

"The relationship between France and Germany on economic terms is like a shotgun marriage," Fredrik Erixon, head of the European Center for International Political Economy in Brussels, said in a phone interview today. "Germany is helplessly watching the deterioration of the French economy, knowing that it will have an impact on Germany and the euro area -- but without Berlin being able to do much about it."