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Germany and France: Leading Actors in Greek Drama (II)

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Germany wants to play the leading role when it comes to financial and economic issues regarding other states of eurozone. It meets the immediate interests of its big business which uses the debt situation to its advantage by accumulating assets abroad. The European Commission, which in some cases resists the pressure from Berlin, directed attention to the fact.

In November 2013, a European Commission's report put Germany under scrutiny for its trade surplus. In September 2013 the surplus reached record high level of 18.9 billion euros. According to the European Commission, Germany artificially increased exports to harm its leading trade partners – the countries of Central and Eastern Europe. This policy imbalanced the European economy.

Germany met the European Commission's report with hostile response. Volker Wieland, a member of Germany's panel of economic advisers, said the trade surplus was created by market forces. His colleague Lars P. Feld said the Merkel's government knew how to cast a spell. Berlin becomes more assertive in its eurozone economic policy. A study conducted by the Halle Institute for Economic Research (IWH) revealed that the German government has saved up to 100 billion euros ($109 billion) in interest on Greek debt.

The report was released this August after the unprecedented interference of German Finance Minister into the talks between the «troika» of money lenders and Greece.

Germany has saved up to 100 billion euros ($109 billion or 3% of GDP) in interest on its debt since 2010 because investors had been flocking to German debt considering it to be a «safe haven investment» in times of turmoil in eurozone. They pushed interest rates down. Noting that Berlin had about 90 billion euros in the fire in the Greek crisis, the research group added that Germany would benefit from Greece's financial woes in any case (the sum is made up of the money transferred through the International Monetary Fund and European Stabilization Mechanism).

The IWH report says any time there was bad news about Greece, yields on German government bonds fell and any time there was good news about Greece, German government bond yields rose. The effects are symmetric and amounted to 20 to 30 basic points a day. According to researchers, when the situation stabilizes Germany will benefit anyway because the medium and long-term loans have not come due as yet. The IWH study concludes that the German state also benefited disproportionately more than other countries in the eurozone, like France and the Netherlands. Berlin increases pressure on the government of Tsipras and blackmails the rest of Europe threatening it with the collapse of Greek economy to become inevitable in case concessions are made. The wording used in a Deutsche Welle commentary is a good example of Germany's attitude towards Greece. It says, *«He (Tsipras) will go down in history as another Greek leader who has completely failed while in office - worse than his predecessors. Barring a miracle, Greece could sink into chaos and bankruptcy. The Greek people should chase Tsipras out of office as quickly as possible».*

The pressure exerted on Greece by Germany has become strong enough to evoke concern among European Union partners and even the United States. It created a basis for rapprochement between Washington and Paris. Independently from each other they have come to the conclusion that that the European Union faces the threat of «Germanization» with its decision making process subject to German influence. In its turn, the French government is getting more and more influenced by the concepts offered by Paul Krugman and Kenneth Rogoff. These American savvies believed that Germany should bear the brunt of debt burden in eurozone. For instance, it could issue Eurobonds to guarantee that the debts of Greece, as well as Ireland, Spain and Portugal, are paid off with the burden equally divided between all European taxpayers. According to Kenneth Rogoff, given the massive financial crisis, Europe's debt problem should have been diagnosed as an insolvency problem from the start, and treated with debt restructuring and forgiveness, aided by moderately elevated inflation and structural reform. A larger part of Greek debt should be written off. The German taxpayers' money should be spent to recapitalize German banks.

IceCap Asset Management experts also believe that Greece is unable to pay off its debts which, including the new bailout program, came close to €400 billion. They think that after the recent banking holidays and with capital controls set the Greek economy has become weaker than ever.

It’s not excluded that France and Germany reached their last deal in July. François Hollande flatly refuses to take part in the discussions initiated by German Finance Minister Wolfgang Schaeuble on Grexit - temporary exit of Greece from eurozone. The French President argues that there can be «no such thing as temporary Grexit, there is only a Grexit or no Grexit». Both France and Germany have support. France is backed up by the countries of the Mediterranean basin, the Netherlands, and even Austria. Austria's chancellor Walter Faymann believes that Greece is humiliated. According to him, if Grexit took place, many countries would want to have a relief from the single currency and that would undermine the spirit of eurozone.

At that Berlin has the backing of Finland and Slovakia. Slovakian Prime Minister Robert Fico said *«The Greeks would do best if they left the euro zone on their own, did their homework and then tried to come back. This is just torture for everybody»,* Fico told reporters on a flight from Bratislava». The time is drawing near for the European Union to tackle the issue again. The Eurogroup has approved the third aid package approved by the money lenders and the Greek parliament. It needs to be endorsed by members of eurozone. Will the eurozone member-states say yes? Just in case, the European Union is considering the possibility of granting a 6 billion euros three-months bridge loan (a type of short-term loan typically taken out pending the arrangement of larger or longer-term financing). According to Bild, the eurozone finance ministers consider the 86 billion-euro ($95 billion) third bailout package as an alternative.

The Greek problem is handled against the background of general negative trends inside the European Union. Quantitative easing has brought about no substantial relief. The recent session of European Central Bank said the situation was frustrating.

Germany flatly refuses to cede. On August 16, Angela Merkel told in an interview to German ZDF TV channel that she resolutely rejects the idea of writing the Greek debt off.

Berlin wants the International Monetary Fund totake part in a new bailout for Greece, no matter the IMF supports the idea of writing off at least a part of the debt, otherwise Greece will fail to shoulder the burden. Ms. Christine Lagarde, Managing Director of the International Monetary Fund, said in a statement issued on August 14, «However, I remain firmly of the view that Greece’s debt has become unsustainable and that Greece cannot restore debt sustainability solely through actions on its own. Thus, it is equally critical for medium and long-term debt sustainability that Greece’s European partners make concrete commitments in the context of the first review of the ESM program to provide significant debt relief, well beyond what has been considered so far».

The Greece’s debt problem European Union continues to be a bone of contention inside the European Union.