

# The Telegraph

## Germany's worst nightmare has come true

The Germans never wanted the single currency in the first place - they knew what it would lead to



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**By Jeremy Warner**

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It's Germany's worst nightmare. Increasingly isolated, ganged up on, and even hated by much of southern Europe, it is fast losing the argument over the future of the euro.

Even the Governor of the Bank of England, Mark Carney, has been at it. This week he joined in the German bashing with a [full-frontal attack on Berlin's austerity agenda](#). And it's causing confusion, dismay and resentment in equal measure in this most stable, disciplined and civilised of nations.

To understand the decisive shift in narrative that has taken place in Europe over the last couple of weeks – from the defeat Germany has suffered at the hands of the [European Central Bank](#), to the [Syriza victory in Greece](#) and its demands for debt forgiveness – you have to go back to the euro's origins and Germany's place in it.

Germans never wanted the single currency in the first place, for like Britain, they instinctively understood where it would lead – to a fiscal, or transfer, union which Germany, as Europe's dominant economy, would be forced to bankroll. If given a referendum, they'd have said no.

But European monetary union was the price Germany had to pay for reunification; it was a way, other European nations naively believed, of containing the newly enlarged country and ensuring that it was properly integrated into the rest of Europe. To them, it seemed the answer to Europe's historic problem - Germany was too large and economically powerful ever to be properly defeated, but the potential threat it poses to the rest of Europe could perhaps be defused through economic integration. Most Germans, now a peace loving people, broadly go along with this "solution" to the problem. The point of dispute is rather about the degree of integration.

To buttress itself against economic pollution from the south, Germany surrounded the new currency and its institutions with safeguards. Fiscal and monetary transfers between nations were specifically banned, and rules were put in place that would supposedly ensure fiscal discipline. None of them has proved equal to the task, and none of them is ultimately compatible with a single currency that actually works.

Since the onset of the financial crisis, Germany has suffered one defeat after another. Every line in the sand has been breached, culminating last week in the Bundesbank's failure to block ECB money printing, a remedy which may or may not have some merit for the beleaguered economies of the south but is culturally anathema to Germans as well as largely inappropriate for their economy. It's also a money transfer by the backdoor.

The bottom line is that the single currency hasn't worked for anyone. It's proved as unsatisfactory for Germany as it has for Greece, Spain and Italy. Happy families are all alike, begins Tolstoy's *Anna Karenina*; every unhappy

family is unhappy in its own way. The observation could have been written for Europe's experiment in monetary union.

If something cannot go on forever, it will stop. So said Herb Stein, one time economic adviser to President Richard Nixon. So far, the euro has defied this truism. Unsustainable it may be, but the single currency has also proved remarkably resilient. Despite the damage, nobody wants to give it up, including the Germans, who grudgingly admit to a huge export dividend from participation. What's more, the last thing Berlin wants is to be seen as blowing up Europe for the third time in a century.

War guilt ensures that Germany will not be the first to pull the plug. Somehow, it has to try to make it work. Berlin is therefore doomed to persist with a project which fundamentally Germans don't want and has caused economic ruin throughout much of the rest of Europe.

By the by, Germans again find themselves depicted as the Continent's bad guys, with the new Greek government demanding reparations for wartime afflictions and repeatedly reminding Germany of the hypocrisy of its position by pointing to its history as a serial defaulter. A currency meant to unite Europe has only further divided it.

From the start of the crisis it has been obvious to all dispassionate observers that it can only really end in two ways. Either the eurozone must move rapidly towards the sort of transfer union which Germany has spent the last 15 years resisting, or it must be reconstituted in more sustainable form – that is the monetary separation of Germany and its satellites from the less competitive south, arguably including France.

European elites have been in a state of denial about this choice, with their response to the crisis characterised by grudging incrementalism. There are too many egos, too many careers and too much vested interest bound up in it all to admit the reality.

Now up pops little Syriza to speak truth to power. Whatever you might think about Syriza's substantially unrealistic economic agenda, and its [apparent love affair with the brutish Vladimir Putin](#), on monetary union at least, its leaders have told it as it is.

“The eurozone is going to be toast within a couple of years”, says Greece’s new finance minister, Yanis Varoufakis, unless it can create “shock absorbers and what I call surplus recycling mechanisms”. No monetary union that demands its debtor nations constantly shrink their economies in order to keep up with the repayments can last for long. The current situation is indeed a form of debtors prison, and a completely counter-productive one, for if you deny the debtor the ability to work off his debts, he'll never repay them anyway.

Germany as much as Greece - virtually the whole of Europe, managed to deceive itself when the euro was formed. Everyone feels bruised and wronged by the experience. To blame disciplinarian Germans is as pointless as profligate Greeks. It is half-formed monetary union which is the problem, not the wicked Germans, and it has proved a catastrophe for all involved. The more important question now is whether unwinding it would be an even greater one, or whether something more durable might be salvaged from the wreckage. The geo-political stakes are as important as the economic ones. If Greece is thrown to the wolves, what does that mean for a country with a history of military coups? What does it mean for democracy, and for Europe's already ineffectual role as a buttress against Putin's imperial ambitions? Germany has some big decisions to make.