Germany goes for broke

Voices from within the German establishment are warning that the German government should stop blocking the implementation of so-called ‘coronabonds’. Leading Green Party politicians are concerned that should Italy and Spain suffer economic collapse, Germany’s export industry would be seriously damaged by the loss of these important markets, and both countries could turn to China. Coronabonds would cost Germany billions, but this cost would still be a drop in the ocean of the triple-digit billions in profits it reaps from the eurozone – annually.

This is an edited version of a report by the German foreign policy portal ***German-foreign-policy.com****. The original report, including full references, can be viewed here.*

At the euro finance ministers’ video conference last week the German government blocked the introduction of so-called ‘coronabonds’, in spite of massive pressure from other EU nations and recently even from within Germany itself.

Whereas mainly Italy, Spain and France had insisted that this measure be taken, voices are now being raised from within the German establishment warning that the German government should stop blocking its implementation.

Save export markets

The realisation is beginning to sink in that the corona crisis could have existential threatening consequences for the economies of the southern European countries. It is ‘not in our interests that the economies of Italy or Spain are brought to their knees,’ reasoned Robert Habeck, National Chair of the

Green Party. ‘Germany is an export nation. Italy is its sixth most important trading partner. … If these national economies founder, we go down with them.’

With an eye on saving the eurozone – which enables German enterprises to make maximum profits – influential German business think tanks are advising that coronabonds or a corresponding fund should be accepted. The German economy is an ‘integral part of a European economy that can only be as strong as its weakest link,’ commented Marcel Fratzscher of the German Institute for Economic Research (DIW). Michael Hüther, Director of the German Economic Institute (IW) in Cologne, also warned, ‘without common crisis bonds, I see no way out for the Union.’

Eurobonds for Global Power

Geostrategic considerations are also behind the need for the further reinforcement of the EU within the global rivalry of powers. On the one hand, China must be prevented from strengthening its ties through its assistance to countries such as Italy, declared Franziska Brantner, Europe Spokesperson for the Green group in the Bundestag:

‘[The] corona crisis threatens to become a new passageway for China’s new Silk Road strategy. … If Europe does not want to become the appendix of this Silk Road, we must help ourselves.’

If nothing else, this requires ‘the singular implementation of specifically designated European bonds (coronabonds),’ concluded Brantner.

Green Party chair, Robert Habeck shares this geostrategic (as opposed to humanitarian) motive for wanting to see coronabonds implemented. According to Habeck, ‘the lack of (…) reliable bonds in the euro zone’ is also a reason ‘why the euro plays a relatively limited role as a currency reserve.' 'Therefore, Europe is wasting an opportunity to enhance its geopolitical influence,' writes Habeck. 'Euros constitute only 20 percent of the global monetary reserves; the dollar is at 60 percent.' To remedy this, the issuance of euro bonds is, in the long run, indispensable.

This idea is also shared by former foreign ministers Joseph Fischer (Greens) and Sigmar Gabriel (SPD). In their appeal published last Sunday, Fischer and Gabriel wrote that the EU's common currency 'will have to be collectively vouched for':

'That is the only way the euro will become a truly international reserve currency and an alternative to the dollar. If we do not do this, Europe will not attain its economic sovereignty, and, when in doubt, will always be dependent on policies in the dollar realm.'

In the long run, there is no way around euro bonds.

The Costs of Eurobonds

There are various estimates of what supplementary costs Germany would have to shoulder if eurobonds were introduced. In 2011, when the debate first surfaced, estimates of €17 billion annually were in consideration. The Institute for the World Economy (ifw) in Kiel held a 0.5 percentage point yield markup conceivable, and calculated Berlin's supplementary costs at upward from €10 billion annually. In its forecasts, the Munich-based Institute for Economic Research (ifo) concluded between €33 and €47 billion annually, although many considered this an overestimate.

Conversely, Germany is massively profiting from the EU, both its single market and the common currency. According to calculations made by the Bertelsmann Foundation, thanks to the single market, Germany had a supplementary intake of around

€86 billion in 2017, and according to research carried out by the Centre for European Policy (cep) located in Freiburg, due to the common currency, Germany’s GDP was boosted by €280 billion in 2017.

Thus, while the introduction of eurobonds would somewhat reduce Germany’s net profits from the EU, its remaining profit would still be immense.

Nevertheless, the German government, unwilling to relinquish even the smallest fraction of its profits from European integration, adamantly blocked the euro finance minister’s insistent attempts to introduce temporary coronabonds – despite the danger that this could mean the end of the EU’s existence. Berlin goes for broke.