

## Etsior Monthly Opinion 15 April 2010 – Is Germany actually benefitting from the Greek crisis?

In my Monthly's opinion of February, I explained why Germany would not be prepared to bail-out Greece, mainly for two reasons. The first is political: the Lisbon Treaty does not authorize to rescue an ailing member of the Eurozone and this has been put by the German High Court as condition for Germany to ratify this Treaty. The second reason is that Germans, who have accepted a lot of efforts to be competitive in the world economy, do not want to have to rescue other countries after having accepted to rescue Greece.

These German accomplishments make it now difficult for some other countries of the Eurozone. As the French Minister of Economy, Ms. Christine Lagarde put in bluntly: *"Clearly Germany has done an awfully good job in the last 10 years or so, improving competitiveness, putting very high pressure on its labor costs. When you look at unit labor costs to Germany, they have done a tremendous job in that respect. I'm not sure it is a sustainable model for the long term and for the whole of the group. Clearly we need better convergence... Germany's trade surpluses built on holding down labor costs may be unsustainable for the other countries in the Eurozone"*.

Put another way, the protection of a strong euro offered to some of the Eurozone countries, led them to borrow cheap in euro while not doing the necessary reform efforts. Consequence: their labor costs are too high. These countries borrow money (mainly from Germany), so they can buy German goods, because their own production costs are too high, especially compared to the ones of Germany! This makes Germany fully in control of these countries and Germany realizes it has the power to express its own national interest as well as to reshape the Eurozone its own way, with the support of a strong a domestic political consensus.

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The suggestion of the German Minister of Finances, Mr. Wolfgang Schäuble to show the way out of the Eurozone to those countries having troubles is a clear message indicating that even if Greece is rescued in the short term, there will be no other bailout.

Or the Eurozone agrees to implement a strong fiscal convergence and public accounts coherence, or, ultimately, the Eurozone will be shrunk to the countries implementing the necessary monetary orthodoxy, creating the DM zone again.

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