

*International Colloquium*

***ECONOMIC CRISIS AND NEW NATIONALISMS:  
GERMAN POLITICAL ECONOMY AS PERCEIVED BY EUROPEAN PARTNERS***

**Oil and vinegar. The Euro without Romance**

*Olio e aceto. L'euro senza romanticismo*

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centro per lo studio delle istituzioni finanziarie  
promosso dall'ente cassa di risparmio di firenze

# Oil and vinegar: A non-sustainable combination

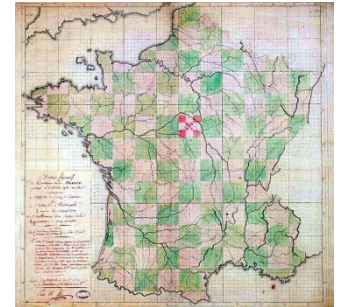


# The comparative emergence of fiscal systems



## Germany

- 400 A.D. sqq.: Feudal system
- Private organization of power
- Layers of contracts
- Additive
- 1750 A.D. sqq. states
- Decentralized budgeting
- Decentralized spending
- (More) incentive compatible
- No access to cb money = oil
- **Germany ≡ oil state**



## France

- 1789: départements, 17ml<sup>2</sup>
- Centralized budgeting
- Decentralized spending
- Long chains of command
- Control loss
- Shirking, moral hazard
- Soft budget constraints
- Less incentive compatible
- More fiscal illusion
- More funds needed
- Access to central bank money
- **France ≡ vinegar state**

# Fiscal and monetary models of EMU

Nr.	Type of state/union	Fiscal balance	Monetary balance
1.	Before Maastricht: Independent states Oil state or union of oil states Vinegar state or union of vinegar st. <b>(sustainable equilibrium)</b>	0 - -	0 + +
2.	Maastricht Union. All constrained to oil. Asymmetric costs. Vinegar <b>incentives</b> to dismantle Maastricht. Oil states must be resolute. Non-selfenforcing	0	0
3.	Weakened Maastricht union Oil state(s) hesitant soft policy. Salami tactics Vinegar state (s) <b>encouraged incentives</b> to dismantle Maastricht (ECB and No-bailout-clause)= <b>non-sustainable</b>	0 - -	0 + +
4.	Greater union 17 member states. Some oil, some vinegar. Oil states provide „more meat“ by differentiation. Vinegar states even stronger <b>incentives. Not sustainable</b>	0 - -	0 + +
5.	Unitary state Oil states dried out Vinegar state(s) take over=>a unitary state Democratic redistribution. MedianPCI < ØPCI <b>permanent redistribution; democratic equilibrium.</b> Euro saved, Europe lost.	-	+



# **The dismantling of the Maastricht Treaty in three steps**

## Dismantling of Maastricht: Step 1

- **Maastricht Treaty art. 130:** The Union institutions ... undertake not to seek to influence the members of the decision-making bodies of the European Central Bank....  
Febr. 7, 1992

- **Mitterand says Sept. 3 1992:** « [J']entends dire partout ... que cette Banque Centrale Européenne sera maîtrise de ses décisions! [indépendante]

**Ce n'est pas vrai!**

La politique monétaire appartient au Conseil Européen et l'application de la politique monétaire appartient à la Banque Centrale, dans le cadre des décisions du Conseil Européen. »

# Step 2: The take over of the ECB 1998



ECB Council with consent of Heads of State and of government

**1993 Duisenberg unanimously**

**1996 French veto: Duisenberg 4 years, then Trichet 8 years**

**1998 Clear violation of the Treaty.**

1998-2003

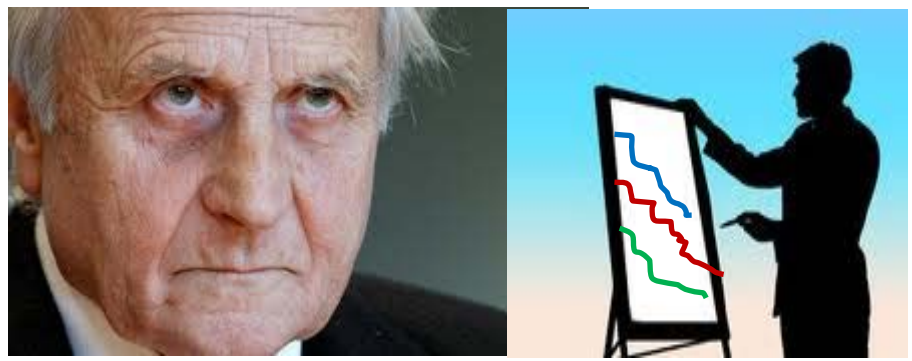


2003-2011



# Step 3: The night when the no-bailout fell

## Dismantling Maastricht in one night (Ludlow 2010)



H + 36h  
Tokyo



~~MAASTRICHT~~

Merkel Bailout package  
EUR 440 bn. + IMF EUR 250 bn. + 60 bn.€  
END OF Art. 125 TFEU = End of Maastricht  
May 8, 2010



# The unleashing of the crisis

- May 7/8 2010
- Euro- rescue package EFSF at 750 Mrd. €
- EZB bond purchasing program 209 bn. €

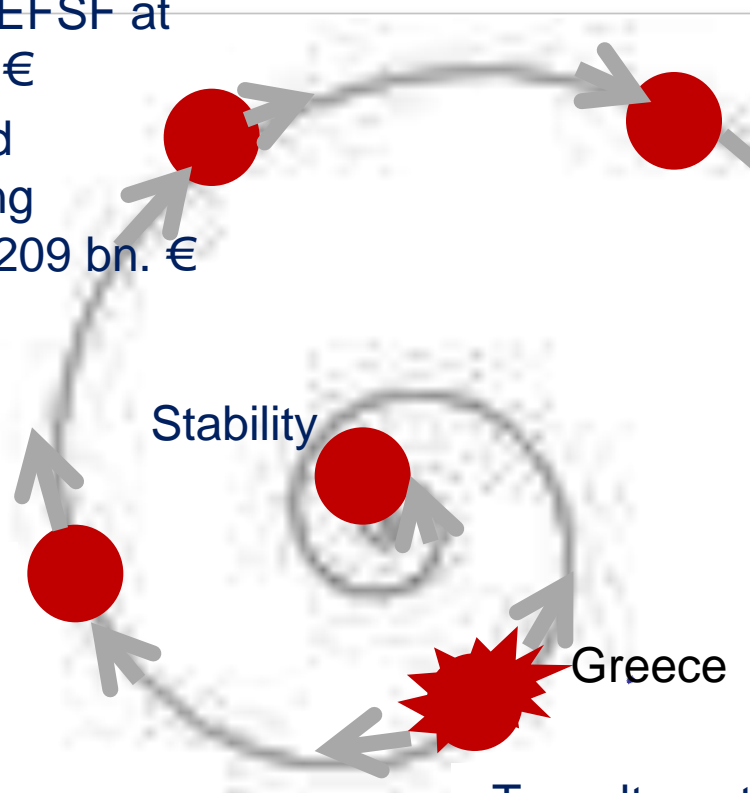
March 24/25 2011: Eur. Stabilization mechanism ESM

Moral. Hazard increases to 1,8 Bill. €, excl. TARGET2

Nov. 2011: ECB 3 years' tender 500 bn €;  
2012 OMT

- **Ever deeper into the crisis**
- **Increasing exit costs.**

- April, 23, 2010:
- 1st Greek package 110 Mrd. €
- Moral hazard↑



- Two alternative tracks
- *Debtor's lead*: I cannot pay: London Club
- *Creditors' lead*: Bailout



**Forget  
euromantics:  
a fata morgana**

**[www.wiwi.hu-berlin.de](http://www.wiwi.hu-berlin.de)**

# Supplement: European currency regimes 1979-2012



Currency regime	Currencies	Lower level governments	Budget regulation	Decision (D) and Liability (L)	Sanctions	Central Bank regime in Europe
(1)	(2)	(3)	(4)	(5)	(6)	(7)
<b>(1) European Monetary System (EMS)</b>	Multiple currencies Foreign exchange rate standard	Sovereign States	Endebtment autonomy, No-Bailout	D = L	Auto- matic drop-out	Competition among central banks
<b>(2) French intentions (1988)</b>	Multiple currencies collective monetary policy, unitary rate of interest	Sovereign States	Top level balancing (French system)	D ≠ L	no	European reserve fund
<b>(3) Euro-Union of 1992</b>	Unitary currency	Sovereign States	Endebtment autonomy; no-bailout	D = L	State bank- ruptcy	Central bank monopoly euro
<b>(4) Transfer Union after 7/8 Mai 2010</b>	Unitary currency. Coll. Monet. policy	Sovereign States	Endebtment autonomy Bailout	D ≠ L	weak	Central bank monopoly euro
<b>(5) Unitary state</b>	Unitary currency	Administrative units; no debt	Top level balancing (French system for EU)	D = L	No own sanctions	Central bank monopoly euro

Source: Own computations