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THE ROLE OF GERMANY IN THE EUROZONE CRISIS – PRAGMATIC RESCUER OR POWER-HUNGRY TORTURER? AN „AUSTRIAN“ PERSPECTIVE

INTRODUCTION

In 1999 the "The Economist" described Germany the sick man of Europe. Seventeen years later, it has risen like phoenix out of the ashes and become the continent's best-performing and biggest economy. Germany's jobless rate fell almost halved from almost 11% in 2006 to 6.4% in 2015 and is among the lowest in the Euro area (Statista, 2016). The country runs persistently high current account surpluses, its budget is balanced and government debt is falling, while the economies of many other countries of the European Union (EU), in particular in the euro area, almost stagnate and continue to suffer from the negative effects of the global financial and eurozone crises due to the lack of global competitiveness. Among them are EU's other big economies France and Italy. As a result, power within Europe has shifted sharply towards Germany (see also Economist 2013).

This growing influence and dominance has become the subject of lively debate in particular regarding Germany's role in the eurozone crisis. For example, in September 2013 the German newspaper "Süddeutsche Zeitung" was wondering if Germany acts in this crisis as a pragmatic saviour or a power-hungry torturer. It cited an online-survey among readers of big European newspapers which showed that Germany's stance in the eurozone crisis was felt as arrogant, dominant and even authoritarian. Headlines like "Merkel may make Greece a pariah state" (Newsweek 2015), or "Greek crisis shows how Germany's power polarized Europe" (Wall Street Journal 2015) point into the same direction. Likewise do newspaper cartoons in southern Europe which showed Germany's Chancellor Angela Merkel with a Hitler moustache accusing Germany as the destroyer of Europe. This view is supported by prominent Anglo-Saxon economists like the Nobel Prize winners Paul Krugman (e.g. 2012, 2014, 2015), Joseph Stiglitz[1], or Jeffrey Sachs (e.g. 2015), and Martin Wolf (e.g. 2014), who blame

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[1] See e.g. Stiglitz's interview in CNBC (2015).

a German fixation with austerity for Greece's travails (see also Huerta de Soto 2012, Stelzenmüller 2015).

Germany is criticized basically on two grounds. First, its constantly high current account surpluses are said to be an indication that Germany prospers at the expense of the crisis-ridden eurozone member countries and so stifles their economic recovery. Second, Germany is accused of selfishly wielding its clout to impose what some commentators and economists consider counterproductive austerity policies in combination with humiliating reforms that violate the crisis countries' sovereignty and the heartless refusal of debt relief that will wreck their economies in order to protect German taxpayers (see e.g. Economist 2013, Times 2015, Krugman 2012, 2015). This prevailing narrative of the eurozone crisis in the media creates the impression that the bogeyman and real problem of the eurocrisis is Germany. Accordingly, Bloomberg View (2015) demanded that Germany, not Greece should exit the euro.

This article discusses these allegations and the role Germany has played so far in the European sovereign debt crisis. Has it really acted as a merciless and selfish creditor that drives the crisis-hidden countries deeper into trouble or has it played a much more pragmatic role? The answer depends much on the theoretical framework applied to explain the crisis and the normative conclusion derived from it.

The economic debate about the causes of and the right therapy to economic crises of magnitudes like the Great Depression of the 1930s, and lately the sharp decline in economic activity following the 2008 global financial crisis, which is referred to in the USA as the Great Recession, as well as of the eurozone crisis first erupted around 80 years ago between Lord John Maynard Keynes and future Nobel Laureate Friedrich Hayek, the most prominent representative of the Austrian School of economics. It has revitalized in the wake of the 2008 global financial crisis after in the 1990s the major modern macroeconomic schools of thought had reached a consensus called the new neoclassical synthesis (Koppl and Luther 2012, Mayer 2013, Miller 2013).[2] The new neoclassical synthesis provided the guidelines for the monetary policy of the United States' Federal Reserve and other central banks, which was credited with having contributed to what came to be called the "Great Moderation" (Stock and Watson 2002, Bernanke 2004). This refers to the period since the mid-1980s when macroeconomic volatility was largely reduced, but which came to an abrupt end with the financial crisis of 2008. With this return of macroeconomic instability and uncertainty Keynesian business cycle theory resurged and hence the dispute among economists about what to do about it (Koppl and Luther 2012).[3] The above mentioned economists that criticize Germany's stance in the eurozone crisis base their arguments largely on Keynesian theory.

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[2] The new neoclassical synthesis is the fusion of the major, modern macroeconomic schools of thought, the new classical and new Keynesian theory, into a consensus on the best way to explain short-run fluctuations in the economy. For more detail see Goodfriend and King (1997), Woodford (2009).

[3] Examples of prominent scholars that turned in the wake of the crisis to the Keynesian view that more government intervention and regulation is needed to prevent the market economy from running into crises or even collapsing are Alan Greenspan (2008) and Richard A. Posner (2009a, 2009b).

According to this theory business cycles are driven by irrational human behaviour and exuberance which are called "animal spirits" that cause market excesses (Keynes 1936, Krugman 2009, Shiller 2006, Akerlof and Shiller 2010, Kindleberger and Aliber 2011, Schnabl and Spantig 2011, Schnabl and Hoffmann 2011). Therefore, crises cannot be recognized *ex ante* and consequently cannot be prevented. They happen randomly. Proponents of this theory regard quick government intervention, and in particular through fiscal stimulus and monetary expansion as the only correct policy to overcome economic crises. It is expected that an increase in money raises the demand for goods and services, and via the Keynesian multiplier, boosts overall economic activity.

However, the outcomes of the attempts to apply Keynesian theory to overcome real world economic crises were largely disappointing so far. In the 1970s and early 1980s it resulted not in the end of the business cycle as predicted, but in stagflation (Lemieux 2011). Likewise Japan that has been applying the Keynesian therapy already for two decades is still stuck in stagnation and ever growing sovereign debts (see Schnabel 2012, 2014). This unconvincing experience casts severe doubts on the appropriateness of modern Keynesian economics as a reliable foundation for anti-crisis economic policy.

According to the alternative theoretical framework of Hayek and other "Austrian" economists, not greed, and unbounded self-interest in unhampered markets but government-promoted credit expansion causes economic crises. It distorts the interest rate and leads to an unsustainable boom that misallocates resources and sooner or later leads to a bust in which resources must be reallocated. It will be shown that many facts of the ongoing eurozone crisis appear to fit more the Austrian theoretical framework than the Keynesian theory. Therefore, the Austrian business cycle theory is used as analytical framework for the assessment of Germany's role in the European sovereign debt crisis complemented with elements of public-choice theory.

The remainder of the paper is organized as follows: Section 2 develops the analytical framework by explaining the main arguments of the Austrian business cycle theory. Then section 3 explores if and to what extent Germany has benefited from the single currency in Europe. Next, section 4 analyses how big Germany's clout is to determine the eurozone's anti-crisis policy, and section 5 discusses if the policy measures advocated by Germany and undertaken by the eurozone group to solve the euro crisis are appropriate seen through the lens of the Austrian business cycle theory. The paper ends with concluding remarks (section 6).

THE AUSTRIAN BUSINESS CYCLE THEORY

Austrian business cycle theory, originally called the monetary theory of the trade cycle, was primarily developed by Ludwig von Mises (2009 [1912], 1998 [1949]) and Friedrich August von Hayek (1935, 1966 [1933]) in the 1930s. In 1974 Hayek, the most eminent of the modern Austrian economists, was awarded for his work on business cycle theory the Nobel Prize. The Austrian business cycle theory was then further developed by Murray Rothbard (1970, 1990, 2000, 2001), Lachmann (1943, 1978), Garrison (2001, 2009, 2012), Lewin (2011), or Huerta de Soto (2009, 2012). This theory is built on the following basic assumptions and insights which are grounded in the capital theory of Carl Menger (1976 [1871], 2009 [1892]) and Eugen von Böhm-Bawerk (1959):

- *The prerequisite for sustainable investment are real savings*. The decision of economic agents on how much of their income they will consume now and how much they will save to spend it at a later time is determined by the interest rate, because it reflects people's time preference, i.e. how much they are willing to give up now for the prospect of a greater reward in the future (Böhm-Bawerk 1959).
- Unlike in neoclassical theory *capital* is *not* regarded as *homogeneous*, but heterogeneous. This is because capital does not exist on its own, but only in capital goods. They could also be called producer goods (factories, production machinery, tools, and equipment) and are used to create the final goods for the consumers, the so-called consumer goods. Yet, these producer goods differ from each other depending on the branch and stage of production for which they are employed (Erlei 2012). Therefore, most of them cannot be readily used for any other purpose except for those they were designed for. By contrast, if capital really was homogeneous, then it could be reapplied for other purposes if a certain investment project in which it was employed failed.
- Finally, *money is* viewed as *an economic good like any other* (Menger 2009 [1892], Mises 2009 [1912]) although people neither hold it to produce other things, nor to consume it for its own satisfaction, but to exchange with other goods. From what he calls the regression theorem, Mises concluded that money always has its roots in useful, valued commodities. The most prominent example is gold. It is valued not only as a medium of exchange, but also because it has a usefulness of its own, since, for instance, it could be used for jewelry or industrial production. This so called *commodity money* cannot be created by command of the government. Instead it emerges in the unhampered competitive market process where several media of exchange may compete. Usually, those commodities that prove to be more useful to fulfill the function of a good medium of exchange and a store of value become the generally accepted medium of exchange and hence money (Bagus 2010). Money that is not backed by any commodity is called *fiat money*. Since it has no intrinsic value, it can only be established by government regulation. Today, this is the common form of money worldwide. Whereas the supply of commodity money is determined by the free market and limited by the availability of the commodity of which it is made the government can deliberately and arbitrarily increase the supply of *fiat money* and thereby destabilize its purchasing power.
- *Money is* regarded as *not neutral*. An increase in the supply of money sets off a wave of price changes across all markets. As a result resources are drawn from one place to another which changes the pattern of what is consumed and produced. The precise changes that will occur are unpredictable, because even if the new money could be spread evenly across all markets so that everyone would have

a little more money, this does not mean that they all buy a little more of everything (Butler 2012). Some might prefer to save the extra money, while other economic agents would choose to spend it.

In the Austrian view crises originate from an artificial expansion of money supply which pushes interest rates for bank credit below what would have been determined on the free market by time preferences (Mises 1998 [1949]). This creates an unsustainable boom. The low interest rates encourage entrepreneurs to borrow and invest in new production. At the same time the low interest rates prompt consumers to buy more while they discourage saving. As a result there are not enough voluntary real savings to sustain the newly started investments. Therefore, at some time the banks have to curb their lending and investments that were profitable at low rates now become unprofitable.

So in essence, the artificially low interest rates destabilized the delicate equivalence between investment in productive assets and people's time preferences, and create a credit-fuelled boom that caused entrepreneurs to invest in the wrong places. These malinvestments must then be liquidated in the subsequent recession or depression. From an Austrian perspective this downturn is a necessary healing period for the economy, serving to reallocate the factors of production to more efficient ways of satisfying customer wants (Rothbard 2000). Therefore, the Austrian business cycle theory advocates a policy of laissez faire in the recession while government intervention in the form of either expansionary fiscal or monetary policy would cut short market corrections, and recreated the previous boom through the manipulation of money and credit (Mises 1998 [1949], Rothbard 2000, Murphy 2009, Boettke and Coyne 2010, Newman 2016).

The root cause of this boom and bust cycle is seen in the politicized *fiat money* system where the government, its central bank and commercial banks form a sinister alliance (Todd 2015). In the course of history governments have monopolized the creation of their own *fiat money* usually through central banks. This means the governments ordered that no other currency can be used in the respective constituency. In order to ensure the financing of various costly policies like e.g. expanding the welfare state, or subsidizing certain companies that are ultimately pursued to retain power governments started to work together with banks. In the course of the history of modern western welfare states banks have become the biggest purchasers of government debt and governments in turn the biggest client of the banking system. At the same the government has the authority to set the rules of the game for the whole financial system. In return for buying government debt banks got the privilege of holding fractional reserves and creating additional money unbacked by a corresponding physical commodity (e.g. gold) or 100 % of deposits.[4] Thus in a fractional reserve banking

[4] In a fractional reserve system banks are required to keep only a small fraction (e.g. 10%) of their depositors' money in their vaults to provide for customers' requests for repayment. The rest they can lend. This means, if banks get in more deposits, or ease their lending terms, it is possible for this extra money to be magnified many times through the banking system.

system a modest increase in the supply of a government's *fiat* currency can be blown up many times and thus making harmful effects of the boom and bust cycle on the real economy that much larger, too (Bagus 2010).

In addition central banks were set up not only to implement monetary policy through the regulation of the supply of bank credit in the economy, but also to act as lender of last resort to the banking sector during times of bank insolvency or financial crisis while simultaneously being the chief supervisor and regulator of commercial banks. Since they have brief political terms and seek to maximize the likelihood of re-election, politicians exert pressure on central banks, although they are formally independent in many countries, to steer the money supply towards their short-term political and economic interests (Nordhaus 1975, Toma 2004, Paniagua 2015). This induces boom-and bust-cycles as described by the Austrian theory. How the monetary policy of major central banks has led to the recent crises has been shown in a number of studies (e.g. Niskanen 2006, Taylor 2009, 2013, Lemieux 2011, Garrison 2009, 2012; see also Balcerowicz 2014). In fact, since in a *fiat* monetary system there is no limit to the production of paper money, doors are open for putting quickly a lot of money in the market whenever it is deemed politically necessary to postpone crises as well as for unlimited bailouts of either over-indebted governments or insolvent financial institutions (Bagus 2010).

DID GERMANY BENEFIT FROM THE INTRODUCTION OF EURO AT THE EXPENSE OF THE CRISIS COUNTRIES?

Germany is accused by member states in the south and prominent Keynesian economists like Paul Krugman (e.g. 2013) of having benefited unduly from the introduction of the euro pointing to Germany's high current account surpluses. It is argued that Germany is saving too much and so suppresses demand both in the eurozone and the global economy, because German consumers are not buying imports. Low wages relative to those in the southern periphery are held to exacerbate this situation additionally. From this follows the call that the German government must undertake active measures to reduce this imbalance and strengthen domestic demand in order to ease the economic recovery of the crisis-ridden countries (see e.g. Blinder 2014, Krugman 2014).

Germany and the introduction of the euro

At first one could object that it was not Germany that pressed for the introduction of a single currency. In fact, there is convincing evidence that the opposite is true. According to that the German government sacrificed the *Deutschmark* and monetary sovereignty in exchange for unification (Bagus 2010, Starbatty 2011, 2013, Times 2015). Before the introduction of the euro, in the adjustable fixed exchange range regime of the European Monetary System the *Deutschmark* quickly developed into the standard that laid bare unsustainable monetary management of governments. Because of its relative strength and the low-inflation policies of the *Bundesbank*, all other currencies were forced to follow its lead if they wanted to stay inside the system and avoid politically embarrassing devaluations. Especially southern European countries used their central banks to finance deficits resulting in higher rates of inflation than in Germany. But their governments feared the comparison with the *Bundesbank* and devaluations of their currency, which could easily lead to losses in elections (Bagus 2010, Starbatty 2013). With the introduction of a single currency such politically unpleasant devaluations against the *Deutschmark* disappeared.

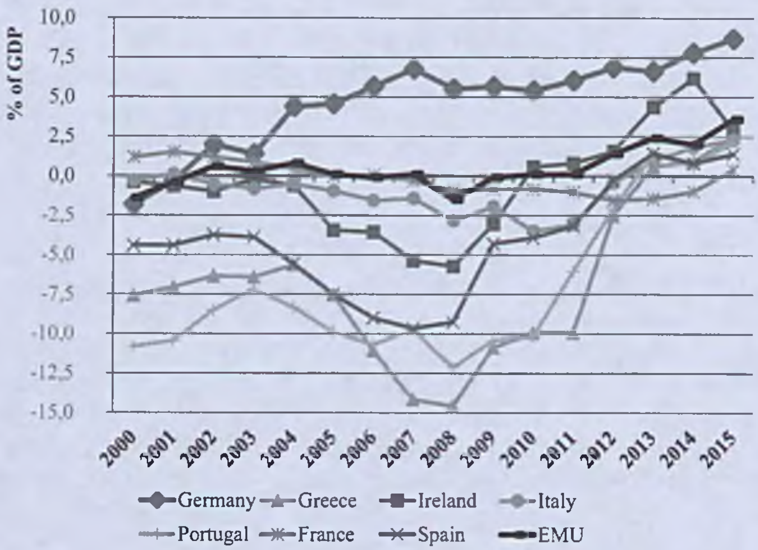
Second, in the beginning the introduction of the common currency was also, if not first of all beneficial for the later crisis countries due to low real interest rates. Real interest rates sank for three reasons. First, with the European Central Bank (ECB) having been based on the model of the *Bundesbank*, high inflation countries inherited part of its prestige so that inflationary expectations fell. Second, the risk premium in rates was reduced, because the expectation was that stronger nations would bail out weaker nations if necessary so that the danger of default was reduced (Bagus 2010, Stabatty 2011, 2013). As a consequence of this credit of trust, which Starbatty (2013, p. 97) calls the "euro dividend", interest rates in southern European countries started to converge to Germany's level even before the euro was introduced. Third, when the euro was introduced the ECB has knitted a relatively wide monetary jacket. The sheer unsolvable task for the ECB is to steer money supply for at that time 17 very different economies sharing the same currency. At the time of introduction of the euro in 1999 southern member countries were booming due to euro dividend and would have need a tight monetary straightjacket, while other member states were stagnating, and would have needed a wider jacket. Among them was Germany. The ECB decided to focus on the stagnating economies and provided relatively large money supply (Starbatty 2011, 2013). In doing so, it fired up the boom in peripheral countries of the Union. What followed fits pretty well the boom-bust framework of the Austrian theory as sketched in the previous section. The newly injected money *via* a fractional-reserve banking system at artificially low interest rates was used to finance additional investment projects and consumption even though there was no corresponding increase in real savings. Many of these investment projects turned out to be malinvestments, mainly in the housing, and financial sectors when in 2008 the global financial and eurozone crises unfolded (Bagus 2010).

Excessive current account surpluses?

Critics of Germany's persistent high current account surpluses, argue that Germany is flooding Europe's southern periphery in particular with its goods and savings and has thus massively contributed to these countries' debt problems (DIW 2013; Peters and Schneider 2013).

Figure 1

Euro Area Current Account to GDP



Note: Data for 2015 refer the third quarter of year.

Sources: Eurostat Statistics; OECD (2016).

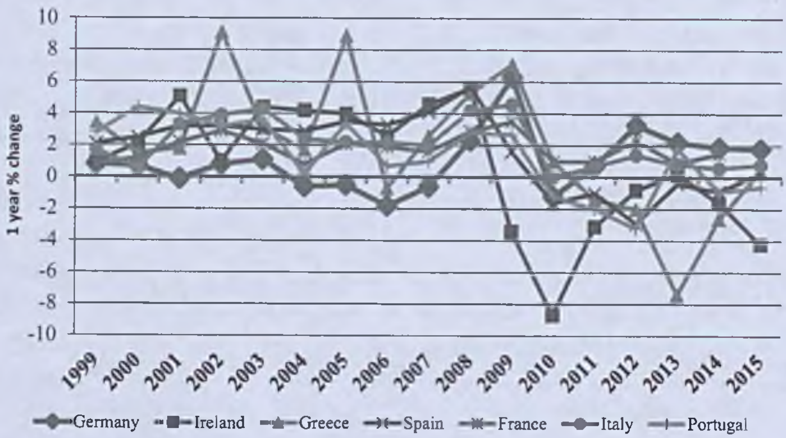
No doubt the boom in southern European member states of the European Monetary Union (EMU) created favourable conditions for German exports as growing wages and rising domestic prices increased import demand. The low external value of the euro caused by ECB's continuous expansion of the quantitative easing program in the wake of its anti-crisis measures adds to these circumstances. And indeed, German's current account surplus continuously increased since the introduction of the euro and reached 8.4 % of GDP in 2015 (figure 1; see also DB Research 2015a). This is much larger than the upper bound that would be in line with the EU Commission's macroeconomic imbalances procedure which is 6%. Prior to the outbreak of the global financial and European sovereign debt crisis Germany's current account surplus went along with an increased trade deficit of other eurozone member countries, peaking at 15% of GDP in Greece, 12.5% in Portugal and 10% in Spain. This can in fact create the impression that Germany gained at the expense of southern EMU member countries. Yet, since 2008 Germany's current account surplus versus these countries had already more than halved to 2% of GDP. This is due mainly to the drop import demand in the course of the deep recession in these countries (DB Research 2014). Nevertheless, at the same time, Germany's current account surpluses kept on growing. As analyses on the regional structure show an increasing portion of Germany's exports went to countries outside the European Monetary Union. In 2009 surpluses in trade with EMU member states contributed still almost 70% to Germany's current account surplus, whereas by 2013 the figures had fallen to only about 30%.[5] The share of total German exports that went to the monetary union decreased during the same period from 45% to 35% while the export share to BRIC-countries and Asian countries continuously increased (DB Research 2013, 2014, Sachverständigenrat 2013). These facts point to the excellent international competitiveness of German products as a major driving-force for Germany's export boom. This holds in particular for goods from the manufacturing sector which meet the demand of catching-up emerging economies. According to analyses by DB Research (2014), it was this high competitiveness that ensured that the weaker demand from the eurozone since the beginning of the European sovereign debt crisis was more than off-set by the rise in exports to third countries.

Furthermore, it is important to recall that in a market economy like Germany it is not the government that decides how much and where to export goods and services. Instead, export activities are the result of free decisions made by private entrepreneurs and consumers taking into account comparative advantages. So, the German government did not deliberately bring about these macroeconomic imbalances. Instead they are the result of superior competitiveness of German products and the unintended consequence of the introduction of a common currency for economies with very heterogeneous levels of competitiveness (see also Peters and Schneider 2013). Surely, without a single currency an appreciation of the *Deutschmark* would have reduced the current account surplus of Germany. With the euro, this is no longer possible as the exchange rate mechanism is turned off (Schnabl 2013, Berthold 2013). Now, the only way to reduce trade imbalances is internal depreciation and appreciation. As Berthold (2013) explains, "in countries with current account surpluses higher wages and pay scales sooner or later lead almost automatically to increasing unit labour costs. For countries with current account deficits this is harder. In their case, downwards inflexible wages and prices often hinder the process of internal depreciation". The only logical consequence from this insight is that the deficit countries have to remove these inflexibilities on input, but also output markets through comprehensive structural reform to gain competitiveness relative to other countries of the Eurozone. This means above all increasing productivity relative to real wages, and hence the reduction of unit labour costs (see also Dustmann et al. 2014). Compared with this the idea of reducing the competitiveness of Germany through an artificial increase of wages would not be in line with the principles of a market economy.

[5] DB Research (2014) points out that in all four crisis countries there are high structural trade deficits versus traditional energy suppliers such as Russia and Saudi Arabia. Moreover, China has turned into a major supplier for the peripheral countries. Already since 2010, these countries have higher trade deficits vis-à-vis China than Germany.

Figure 2

Nominal unit labour cost (annual data, 1 year % change)



Source: Eurostat Statistics.

As in the case of export activities wages in Germany are not set by the government but through a decentralized bargaining process between associations of private entrepreneurs, unions and work councils, representing the interests of the employees. It was the free decision of these economic agents, taken in times when Germany was called the sick man of Europe in the early 2000s, to let wage rates increase only moderately and at a slower pace than increases in productivity in order to keep nominal unit labour costs low (see figure 2) and so to make German products competitive and hence to save jobs (Dustmann et al. 2014). Together with the labour market reforms initiated by the government under Chancellor Gerhard Schröder in 2003, which were known as *Agenda 2010*, this contributed to the sharp decline of long-term unemployment in Germany. An increase of employment leads almost automatically to rising wages and *ceteris paribus* to decreasing international competitiveness in the long-run (Berthold 2013, DB Research 2015b). Although still being lower than in southern member states of the EMU nominal unit labour costs did in fact continuously increase in Germany since 2007 (figure 2, Berthold 2013). However, the price is only one of many other parameters that mattes for import decisions. In particular for investment goods price elasticity of demand for German investment goods is rather low while aspects such as good quality and innovativeness are of much more importance. So, it will take a while until market forces bring about a considerable decrease of Germany's current account surplus.

External imbalances are not uncommon and do not represent a problem *per se*. Persistent current account deficits increase a country's external debt and render an economy more vulnerable if private capital inflows decrease or even stop, which makes financing current account deficits more difficult. For surplus countries the danger is that credits might not be paid back. Yet, there is no theoretical foundation that

6% is the upper limit beyond which this danger materializes (Gros and Busse 2013, Sachverständigenrat 2014). As Berthold (2013) pointed out "by suggesting concrete upper limits for current account balances, the USA, the IMF and the EU-Commission rely on a planned economy approach. (...). Individual freedom of decision making for consumers, entrepreneurs and voters (politicians) would be eliminated. It would be more appropriate to put market mechanisms of the sub-accounts' adjustments into force again."

IS GERMANY ABLE TO DOMINATE THE EUROZONE'S ANTI-CRISIS POLICY?

The main elements of the eurozone's anti-crisis policy are structural reforms that involve economic liberalization, deregulation, increased flexibility in prices and markets (especially the labour market) and austerity measures in the crisis countries in exchange for financial assistance in the form of loans. This is accompanied by qualitative[6] and quantitative easing of money supply by the ECB as well as enlargement of its competencies giving it the right to purchase government bonds (2012) and to supervise commercial banks within the newly created banking union (2014). So it is a mixture of supply-side policies and lax monetary policy, however without fiscal stimulus measures. It amounts to a combination of buying time, burden sharing and "more" Europe, i.e. the further centralization of economic policies at the European level. Besides the banking union the Fiscal Compact of 2013 constitutes such an additional element of centralization. It aims at reinforcing strict and enforceable fiscal rules and levying automatic sanctions on EMU member countries in the form of fines and the temporary suspension of payments from EU's structural and cohesion funds. The expulsion of member states from the EMU that do not comply with the rules is considered as ultima ratio, as has become evident in the July 2015 turbulences with Greece's sovereign debt, when a temporarily and voluntarily exit from the euro area was considered (see also Sachverständigenrat 2015).

The voting rules in the EU organizations where major anti-crisis measures are decided can provide indications if and to what extent the hitherto applied policy might have been shaped or even dominated by Germany. As table 1 shows this can principally only be the case in the permanent rescue funding program of the European Stability Mechanism (ESM) where decision about austerity measures in exchange for loans are made. In the ESM the voting rights of each ESM member is equal to the number of shares allocated to it in the authorised capital stock of the ESM as set out in annex of the treaty establishing the ESM of February 2012 (European Stability Mechanism 2012). Since Germany's share in the paid-up capital is with almost 27% the largest it has in principal a blocking minority. However, the most important decisions taken

[6] Qualitative easing describes a monetary policy used by central banks that brings about a shift in the composition of the assets of the central bank towards less liquid and riskier assets such as private securities as well as sovereign or sovereign-guaranteed instruments. It leads to a reduction of the average quality of the assets backing the monetary base (Bagus 2010).

by the Board of Governors in the EMS require mutual consent (unanimity). These include decisions to provide stability support to an ESM member, the choice of instruments, conditions and terms of such support, calling in authorized unpaid capital, changing the authorized capital stock and adapting the maximum lending volume. This means that despite its many voting rights Germany cannot impose measures against the resistance of other member countries and vice versa. Germany can only use its blocking minority in the ESM emergency voting procedure which decides on financial assistance. It can be granted if supported by a qualified majority of 85% of the votes cast. In addition, Germany's blocking majority may matter in areas where the Board of Governors must take decisions by qualified majority, which according to the treaty requires 80% of the votes cast. Yet, these are areas of minor importance for the current anti-crisis policy. They include setting out the detailed terms of accession of a new member to the ESM, appointing the Managing Director, and approving the annual accounts of the ESM (European Stability Mechanism 2012, 2016).

Table 1

Voting rules in major EU organizations

Body (Organization)	Voting mechanism
Board of Governors of the European Stability Mechanism (ESM)	Voting rights equal to the number of shares allocated to each country – German share: 27% (blocking minority) – substantial decisions most important decisions (instruments, conditions and terms of support): mutual consent (unanimity) – urgent decisions (e.g. financial support): qualified majority of 85% of the votes cast – organizational and technical issues: qualified majority of 80% of the votes cast
European Central Bank (ECB) Governing Council	Since January 2015 rotation system (monthly rotation of 4 voting rights), before 2015: one member, one vote; simple majority
ECB Supervisory Board of the banking union	One member, one vote
Single Resolution Board	One member, one vote; veto right of Council of the EU

Source: *Bundesministerium der Finanzen* (2016a, 2016b), European Stability Mechanism (2012, 2016), European Central Bank (2012).

So actually, the decisions taken in the ESM must necessarily be a compromise resulting from negotiations between countries with very different interests. Typically actions decided to take in one policy field that meet the preferences of a certain group of member countries are balanced with, and taken in exchange for specific actions in other policy areas which are favoured by other member countries. This explains why support that is provided to the debt of the crisis-countries is balanced with obligations to budget austerity and structural reforms, both demands put forward by Germany, or other concessions (see also Huerta de Soto 2012, Feld et al. 2015). Although Germany did support the creation of the ESM as a rescue mechanism for highly indebted countries, it was at the same time quite critical about this institution, because it feared it is a step in the direction of joint liability as it is not accompanied by a corresponding transfer of fiscal authority to the European level (Weidmann 2011). On similar grounds the German government resisted the proposal to introduce eurobonds, fearing that such bonds would reduce the liability of each EMU member country and weaken the incentives for fiscal consolidation. Instead, the German government pushed for the establishment of the Fiscal Compact aimed at reinforcing the budget discipline as laid down in the Stability and Growth Pact by introducing permanent debt brakes in the member states (Schnellenbach and Burret 2013).

In the European Central Bank Germany has even less power to influence monetary policy and the new supervisory tasks within the Single Supervisory Mechanism (SSM) of the banking union. Until January 2015 in the ECB Governing Council the one member one vote rule was applied. Since then, with Lithuania's accession to the eurozone, modified voting procedure came into effect, the so called rotation system. Whereas for the six members of the ECB Executive Board nothing has changed, the now 19 national heads of central banks will not be able to submit their vote each time, because the number of central bank presidents allowed voting in the Governing Council has been limited to 15. This means voting rights will rotate. At the same time, groups have been formed based on size of the member state. The five biggest member states of the eurozone, including Germany, Italy, Spain, France and the Netherlands, will share together four votes in circulation within a time period of five months. The remaining central banks share a total of eleven voting rights, which will also rotate monthly. As a result, every five months the German *Bundesbank* president cannot vote on the eurozone's monetary policy. This sparks fears that Germany will lose even more influence in the ECB Council than it had already lost in the previous one member, one vote system (Euractivc.com 2014).

Throughout the eurozone crisis Germany's voice in the ECB Governing Council against the bank's qualitative and quantitative easing programs has been holding a minority position and has regularly been overheard. For example, the decision of the ECB of May 10, 2010 to buy government bonds on the secondary market was resisted by former *Bundesbank* president Axel Weber and Jürgen Stark, who was member of the Executive Board of the European Central Bank from 2006 until 2011 (Bagus 2011). Both resigned in 2011 from the ECB Governing Council in protest against ECB's bond purchases, in which they saw an erosion of the bank's independence (see e.g. Zeit 2013). Likewise unhappy with the new course of the ECB is the new chief *Bundesbank* Jens Weidmann who replaced Weber in the ECB Governing Council. Weidmann was the only member of the Council to vote against Outright Monetary Transactions (OMT) arguing OMT amounted to essentially monetary financing of governments, which is proscribed by EU treaty (McBride and Alessi 2015).

So, although the European Central Bank was created as a copy of the *Bundesbank*, at least from the outside, from the inside it can be put under political pressure and gradually turn into a central bank more like that known from southern European central banks. Germany and Northern hard currency countries such as the Netherlands or Luxembourg hold the minority of votes against countries like Italy, Portugal, Greece, Spain, and France, whose governments are less adverse to deficits. As a result the ECB presents itself "more and more as the inflationary machine – in service of high politics – that had been intended by French and other Latin politicians" (Bagus 2010).

Similarly in a minority position is Germany in the two newly created bodies of the banking union, the Supervisory Board and the Single Resolution Board, because in both organizations the one member, one vote principle is applied. The Supervisory Board is charged to monitor the financial stability of banks and the Single Resolution Board that is currently being set up has to decide about the recapitalization or liquidation of financial institutions. However, the Council of the EU can reject decisions made by the Single Resolution Board on the liquidation of banks within 24 hours if it considers the bankruptcy being against the public interest.

Germany's stance in the management of the eurozone crisis, in particular its focus on maintaining price stability and fiscal austerity is tried to be explained with a uniquely German branch or tradition of economics, called "Ordoliberalism" or "Ordnungsökonomik" (the economics of the social order) (see e.g. Dullien and Guérot 2012, Economist 2013, Stelzenmüller 2015, Feld et al. 2015). Ordoliberalism originates from the so-called "Freiburg School" of the 1930s, a research program at Freiburg University led by economist Walter Eucken and law scholar Franz Böhm. Their aim was to develop an economic order that is conducive both to growth and individual liberty and dignity. They came to the conclusion that these goals can best be achieved within a competitive order based on an adequate institutional framework that should be protected and developed further by the government. The government's role should be restricted to this task. It should however, not intervene in day-to-day economic decisions. The functioning of the price mechanism is seen as essential for the coordination of all economic activity (Eucken 2004 [1952]). The aim of the so called seven constitutive principles Eucken (2004 [1952]) has developed is to provide the appropriate institutional framework to maintain the functioning of the price mechanism. One of these principle is monetary stability (the "primacy of currency policy") in order to prevent distortions of price signals. Other constitutive principles are open markets, private property, freedom of contract, liability and the constancy of economic policy.

According to Eucken (2004 [1952]) money supply should not be subjected to political manipulation, but take the form of a rule-based automatism to prevent discretionary monetary policy. However, as Richter (1999) shows in the monetary policy debates of post-World War II Germany ordoliberal arguments did not play an important role. Instead it was influenced by the international controversy between Keynesianism and Monetarism. Yet, for the most part, the strategy of the *Bundesbank* reflected monetarist thinking which contents that there is no permanent trade-off between price stability on the one side and growth and employment on the other (Feld et al., 2015).

Other elements of the ordoliberal Freiburg School might have a greater influence on Germany's position in the ongoing eurozone crisis than its reflection on monetary policy. This holds in particular for the focus on rules and their impartial enforcement as well as for one of Eucken's seven constitutive principle, namely that of liability. This requires that whoever benefits from an action, should bear the damage, if the action fails (Eucken 1952/2004). From this follows, applied to the EMU, the necessity that the sovereign states within the monetary union have to be held responsible for their economic policy decisions at the national level. They must not have the possibility to externalize the costs of their failed actions on others, especially in the field of fiscal policy. This might explain Germany's resistance against joint liability via eurobonds and its only reluctant support of the creation of the ESM. Nevertheless, the fact that it did not obstruct the establishment of the ESM and has so far accepted the majority votes in the ECB on the unconventional monetary policy shows that Germany largely responded pragmatically to the challenges raised by the crisis. Stelzenmüller (2015) points out that although Germany's insistence on compliance with rules, austerity and structural reform can be traced to ordoliberalism, the country itself has defied the very rules it is now laying down for Greece. Likewise, at home the Merkel government violates with its minimum wages and maximum prices in the rental market as well as its centrally planned like energy transition the central normative prescription of ordoliberalism, namely to abstain from interventions into the market process in pursuit of specific market outcomes. The final section evaluates to what extent the anti-crisis policy advocated by Germany and undertaken by the eurozone group to overcome the euro crisis is appropriate from the perspective of the Austrian business cycle theory.

ASSESSMENT OF THE APPROPRIATENESS OF GERMANY'S STANCE IN THE EUROZONE'S ANTI-CRISIS POLICY

From the diagnosis of the Austrian business cycle theory of economic crises as laid down in section 2 follow two normative conclusions. First, the profound microeconomic distortion that the over-expansion of credits unbacked by real saving has generated in the structure of relative prices and capital goods must be liquidated as fast as possible in order to enable the reallocation of the factors of production to more productive uses. Second, in order to eliminate the root cause of economic crises a substantial, if not radical reform of the monetary system is required. This means above all a far-reaching de-politicizing of the system.

Against this background in particular Germany's insistence on austerity, the rejection of the issuance of Eurobonds as well as on structural reforms is basically line with these normative conclusions, in particular with the first one (see also Huerta de Soto 2012). Saving is important, because in the Austrian view real savings are the crucial prerequisite for sustainable investment. Structural reforms that strengthen the discovery properties of the market process are inevitable to bring an economy's production structure in line with consumer demand. To a certain degree, at least principally, consistent with the Austrian policy prescription are also the efforts to create a unified regulatory framework for the banking sector that stipulate higher equity requirements and deposit guarantees. These measures can be understood as provisions to protect depositors' property rights that have entrusted their money to banks in exchange for the promise to get it back on demand (Rothbard 1970).

However, these reforms in the monetary system do not go far enough as they do not address strongly enough, if at all the real problem of this sector, namely its high politicization. In particular problematic in this context is the policy and role of the European Central Bank in the crisis, which Germany strongly opposes, yet without success. Its continuing qualitative, quantitative easing and ultra-low interest rate policy[7] in the hopes of sparking inflation and growth actually sows the seed for the next crises. From the perspective of the Austrian business cycle theory such a growth engineered by the central bank is again based on malinvested money and will be experienced only in bubble industries, while it destroys wealth in other industries. Likewise problematic is the enlargement of the ECB's competencies to unlimited bond-buying and the supervision over Europe's largest financial institutions. Bond-buying is of concern because it can be viewed as a form of monetary financing of governments which reduces the incentives for difficult budget and structural reforms.[8]

The aim of the banking union is to make banks less likely to fail through better oversight by central authorities, as well as to provide a more orderly process for dealing with their failures through recapitalization, restructuring or shut down when necessary. Under the Single Supervisory Mechanism the ECB is authorized to monitor the financial stability of all euro currency members. Yet, there are two problems related to this task. First, there might be a conflict of interest as the ECB unites two functions in one organization, namely as lender to and the same time supervisor of commercial banks. This raises doubts whether the ECB will really carry out a thorough oversight and allow banks to fail thereby letting creditors and shareholders share part of the burden of the closure of banks.

Such reservations were voiced when in October 2014 the ECB had completed the so called "stress tests" which were designed to determine the health of 130 financial institutions in the EMU. A number of critics argued that the tests were overly optimistic or even flawed.[9] Second, it is doubtful that ever more regulation and oversight by

[7] On March 10, 2016 the ECB has decided to further reduce the headline borrowing cost to zero, while banks are being forced to pay 0.4% for leaving cash at the ECB. Furthermore the monthly purchases under the asset purchase program will be expanded to €80 billion and bonds issued by non-bank corporations will be included in the list of assets that are eligible for regular purchases (European Central Bank 2016).

[8] For more on the negative effects of this so-called unconventional monetary policy see e.g. Cochrane (2012), White, W.R. (2012), Balcerowicz (2014).

[9] For example Legrain (2014) called the results a "whitewash". Acharya and Steffen (2014a and 2014b) found in their analysis that the major banks, especially in France and Germany, were much weaker than the ECB indicated. Similarly, Kahn (2014) and Steil and Walker (2014) hold that the tests were flawed.

politicians, bureaucrats, or suitably chosen experts in central authorities is better able to reduce the likelihood of bank failures than the profit-and-loss mechanism of the unhampered market process. Such central bodies usually suffer from informational and enforcement problems that are difficult to resolve (see also Klein 2012, Balcerowicz 2014). As Kirzner (1978) explained, government bodies face completely different incentives than private entrepreneurs. Because the latter invest their own resources, they are careful when making their investment decisions. If successful they are rewarded by profits; otherwise they suffer losses which force them to correct their errors. Political actors, however, usually do not capture pecuniary profits in the course of their activities and are not subject to the same constraints as private firms. Typically they use taxpayer money and do not face bankruptcy in the case of long-term losses. This encourages risky behaviour and overestimation of profit opportunities and frequently ends in large-scale malinvestment. So, even if government officials were completely dedicated to the well-being of the citizenry nothing within this monitoring process can simulate the discovery and disciplinary function that is so integral to unregulated markets (Kirzner 1978).

Third, so far the EMU governments failed to agree on higher Basle risk-weighted capital requirements for financial institutions to back government bonds (see also Sachverständigenrat 2016, items 52ff.). This retains the incentive to invest deposits into government bonds and indicates that the governments are not (yet) really interested in consolidated budgets and a de-politicized banking sector. Too strong seems to be the temptation to compete for votes with spending promises in the political competition. It is especially strong when the banks are stated-owned (Gonzales-Garcia and Grigoli 2013). In fact, in the Austrian understanding it is not a lack of regulation of capital markets and financial institutions that causes financial crises but too much wrong government regulations and interventions that distort market signals and so provide for incentives that encourage private investors to take excessive risks. Besides perverse credit weights in the Basle capital accords that encourage domestic banks to lend to their sovereigns such regulations are tax regimes favouring debt relative to equity financing, subsidized mortgages that encourage excessive borrowing, state-provided deposit insurance that eliminate market discipline, and bailout policies that cause moral hazard and the "too big to fail" problem (Balcerowicz 2014, Erlei 2014, Klein 2012).

Moreover, each new government regulation often causes unintended side-effects (Ludwig von Mises 1996 [1976]; Siebert 2001). In particular, they might encourage evasion, i.e. attempts to circumvent the new rules, and provoke identical entrepreneurial behaviour, e.g. the adoption of identical measures for risk provision. So the regulation of ever more details in the banking sector might induce uniform and gregarious behaviour in this industry and so even increase systemic risks, if the regulations guide many economic agents in the wrong direction. In this case the negative consequences are much more far reaching than without regulation. If financial institutions are free to make many different decisions, in an unregulated market environment the consequence of any particular error is minimized as errors are quickly corrected through either bankruptcy or the takeover of inefficient enterprises (Pennington 2011). From an Austrian perspective the relevant question is therefore not how the European Central Bank can prevent the buildup of serious financial crises, but how to prevent the ECB "from occasionally 'leaning with the wind,' thus fuelling asset bubbles and destabilizing financial markets" (Balcerowicz 2014, p. 460), i.e. how to take the value of money out of the hands of government officials (Huerta de Soto 2012; Klein 2012).

There are different suggestions in the Austrian School of Economics how this can best be reached. Some evoke a return to commodity money like the gold standard that governments cannot manipulate. It removes the possibility of government intervention in the monetary system and imposes fiscal discipline (Timberlake 1995; Klein 2012). Hayek (1976) advocates allowing competition between currencies in order to eliminate the government's monetary monopoly on money.[10] The argument goes that if people were able to use the currency of their choice, then they would tend to use the currency they thought would best maintain its value, since a stable currency would make business calculations much easier. This competition in currencies would in turn pressure governments to resist inflationary policies, and so avoid the embarrassment of people rejecting their currency and moving to someone else's (Butler 2010). As the experience with many countries with high rates of inflation in their own currency show, where traders adopted the dollar or the euro for their transactions instead, allowing people choice in currency can certainly work (Lewis 2015).

Other scholars focus on the fractional reserve banking system and promote higher or even 100% reserve requirements on the banks arguing that lending deposits constitutes a violation of the depositor's property rights if the banks cannot guarantee its ability to provide for customers' requests for repayment (Simons 1936, Rothbard, 1970, 1994). Again other economists in the Austrian tradition propose to rely on competition rather than legal regulation and suggest free banking without central banks, minimum reserve regulations and bail outs (White, L.H. 1984, 2002, 2012, 2014, Selgin 1988, Selgin and White, L.H. 1994; Horwitz, 1992, 2011, 2013). It is argued that in such an environment banks would keep on hand as much liquid reserves as they thought necessary to keep paying their depositors' daily withdrawals. Banks would also be free to issue their own paper currency. As long as people thought a bank's financial management was sound, they would accept its notes at full value. But if people began to get worried about the security of a bank, they would perhaps accept its notes at a discount rather than full value, to reflect the risk of the bank suffering a run and being unable to pay its depositors and note holders. This would send it the signal that it needed to strengthen its financial position and so avoid these dangers. These incentives are held sufficient to keep the banks healthy. More recently, the appearance of electronic currencies such as the Bitcoin has renewed the question of private money. [11]

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[10] Hayek (1976, p. 16) held: "Money is certainly too dangerous an instrument to leave to the fortuitous expediency of politicians - or, it seems, economists." For more detail on the evolution of Hayek's views on the monetary system see Boettke and Smith (2016) and White (1999).

[11] For more detail see e.g. Selgin, G. (2013), McCallum (2015), Dowd and Hutchinson (2015), Whilte, L.H. (2015).

An interesting and unexpected suggestion with regard to the EMU is made by Huerta de Soto (2012), an Austrian economist from Spain. He calls for defending the euro as a common currency. Huerta de Soto views the common European currency as a proxy or second-best solution to the Austrian ideal of a commodity monetary system without the monopoly of central banks along with a 100% reserve requirement in banking that disciplines and limits as far as possible the arbitrary power of the politicians and pressure groups, and central banks to pursue an easy money policy. He argues that without the single currency the crisis countries would have never been forced to reconsider to reduce all their public-expenditure items, and implement structural reforms in the attempt to regain international competitiveness by increasing as far as possible the flexibility of markets, no matter how insufficient the reforms so far might have been. So he actually shares the expectation that many proponents of the EMU had at the time of its establishment that the euro would remove the easy way of coping with economic problems through inflationary policies of credit expansion and nominal devaluation. Instead their governments would be forced to use politically much less popular, but more effective measures, namely structural reforms (see also Balcerowicz 2014).

Referring to arguments of Ludwig von Mises in defense of fixed exchange rates Huerta de Soto (2012) contends that even if a return to the gold standard is politically not feasible, a system of fixed exchange rates similarly well restricts and disciplines the arbitrariness of politicians who are tempted to rely on inflation and flexible rates to avoid the political cost of unpopular policies like tax increases. With the introduction of the euro the member states lost this possibility of manipulating their local currency by placing it at the service of the political needs of the moment. However, there are two objections to this argument: First, the European sovereign debt crisis was triggered by the misconstruction of the euro with its inherent incentive to public and private indebtedness coupled with an expansionary monetary policy by the ECB. Those inflows of money not only fuelled the financial crises in the southern member countries but also made bad economic policies more financeable (Schüller 2012; Balcerowicz 2014). Second, although the option of nominal devaluation has been eliminated and reform steps have been introduced in the peripheral countries, there is still much space to tolerating distortions and delaying reforms. This is possible, because the single currency can only exercise its disciplinary power on politicians if they voluntarily abide by the rules that they have set themselves and refrain from undertaking measures to off-set this disciplinary power through measures taken at the European level like fiscal transfers, indirect monetization of sovereign debt, and an inflationary monetary policy by the ECB (Bökenkamp 2012, Schüller 2012, Balcerowicz 2014). But that is exactly what did not happen. Prominent Germany economists, that opposed the introduction of a common currency at the outset (Hankel et al. 2001), have pointed out that the crucial prerequisites for obeying those rules that are necessary to keep a single currency functioning is not given, namely homogenous traditions, convictions, preferences and goals for economic policy (see also Schüller 2012). In such a situation, as Bökenkamp (2012) and Schüller (2012) convincingly note, a system of flexible exchange rate is the superior solution because it does not depend on the self-commitment of politicians to stick to certain rules. Surely, a government can inflate its currency as much as it wants, but it is the flexible exchange rate mechanism that protects other nations from the harmful effects. In fact, a declining external value of an inflationary currency against its more solid foreign counterparts is an indicator for wrong economic policies in the devaluating country and puts incompetent governments into questions. This would actually speak for the Hayekian suggestion of admitting competition between currencies. Applied to the EMU this could imply the exit of those member countries that do oppose a stability-oriented fiscal and monetary policy and the reintroduction of local currencies, as advocated e.g. by Hankel (2011) and Starbatty (2011, 2013).

Similarly, the move towards centralizing economic policies on the EU level encounters the danger of creating new moral hazard problems and reduces the responsibility and accountability of the member countries to improve competitiveness and reduce debts. This is even more so as the governments of the EMU have so far failed to agree on a solvency procedure for member states, and given the many breaches of EU agreements (Berthold 2016), most prominently the no-bail out clause and the earlier Stability and Growth Pact, they lack credibility that laws and rules will be enforced and sanctions imposed when necessary. As long as such a situation prevails, the costs of poor national economic policies can be socialized, and so there is little reason to expect that national governments will apply politically unattractive economic policies that are imposed on them from outside. Therefore, there is no convincing reason to believe that more centralized political control is a more efficient device than the discipline of the free market process to keep the behaviour of member states in line with economic necessities, and hold them accountable for their actions (see also Apolte 2015, Issing 2015). As Huerta de Soto (2012) has pointed out it was actually the sovereign-debt *markets* in which international investors have decided to purchase sovereign debt or not, that revealed the severity of the eurozone's problems and precipitated the implementation of measures to solve them.

In addition, it is far from clear what the rhetoric of more Europe, in particular of a fiscal union actually means (Balcerowicz 2014). Does it mean the existence of effective fiscal constraints on members of the monetary union, or does it mean large cross-regional fiscal transfers, or a mixture of both of these? Even if the fiscal union would lay its emphasis on austerity measures and effective fiscal constraints as Germany favours, it is far from certain that this orientation will prevail in the long run. It cannot be excluded that a new fiscal or economic government will suffer the same fate as the ECB. The ECB was modeled after the *Bundesbank* and thought to be in favour of "hard money". This turned out to be an illusion. Similarly, the new economic government may be modeled after fiscally responsible Germany. But like in the Governing Council of the ECB, Germany and its allies might find themselves again in the minority (Bagus 2012). A final drawback of an economic government is its inclination to fiscal harmonization. This would eliminate competition in his function as a discovery procedure for institutional arrangements conducive for growth and individual liberty

(Bagus 2012). As long as there exists institutional competition to attract citizens, companies, and investments governments cannot deteriorate the economic conditions in their country too much, because people and capital can easily move to other EU member states. This possibility of voting by foot is an important guarantee for individual liberty and against erroneous policies.

In sum, while austerity and structural reforms go in the right direction, in the Austrian view the policy steps taken to date by the ECB to counteract these measures merely reinforce, rather than ameliorate the problems of the eurozone as market correction to previous malinvestments are stifled by the very steps taken to prevent the market correction from occurring.

CONCLUDING REMARKS

Germany's role in the ongoing eurozone crisis is that of a pragmatic saviour rather than a merciless torturer. Surely, Germany benefited from the common currency through favourable export conditions. But likewise did, if not even more so the peripheral countries of the EMU in the form of low real interest rates. In line with the Austrian business cycle theory this, however, triggered an unsustainable boom there that inevitably ended in a bust. Whereas this theory suggests a *laissez-faire* policy to eliminate all malinvestment and a profound de-politicization of the monetary system, the EMU's real anti-crisis policy only moderately follows this therapy and Germany only partially succeeded in putting its policy preferences into fruition. This only holds for its insistence on austerity and structural reforms, whereas it is not influential enough to stop the ECB's counterproductive policy of quantitative easing and its enlargement of power on the purchase of government debt and financial market supervision (see also Stelzenmüller 2015). In fact, from an Austrian perspective the ECB's role and policy is actually the Achilles' heel of the EMU's anti-crisis policy as it sows the seed for the next bust.

Political decisions in the EU are always a comprise resulting from an intergovernmental bargaining process in which countries with very different interests must reach an agreement. So far the EU has succeeded to find such agreements in times of crisis, no matter who imperfect the solutions have been. Germany surely enjoys an unequalled position of power in Europe due to its good economic performance and as major creditor. But it lacks both the capacity and will to act as Europe's hegemon or leader. As Buras (2015) has formulated it, Germany "faces an old dilemma, as a country that is too large for Europe but too small to succeed without the help of its partners." Yet, even if it could, given its history and a deep-seated belief in European integration Germany has no interest to push through policies that would endanger the whole European project. Therefore, Germany will most likely continue the pragmatism it has demonstrated so far in the ongoing eurozone crisis. However, given the severe dangers of an increasingly ultra-expansive policy of the European Central Bank one would wish that Germany was either large or convincing enough to find sufficient allies to turn around this course.

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ABSTRACT

Germany's role in the eurozone crisis is a subject of debate. Does Europe's largest economy act pragmatically and lend a helping hand to the crisis countries or does its fixation on austerity and structural reforms prevent their discovery? This article discusses this question using the business cycle theory of the Austrian School of Economics as normative benchmark. It is argued that Germany's insistence on fiscal discipline and market-oriented reforms is basically in line with the normative conclusions of this theory, while the reforms suggested for the monetary system fail to adequately solve the crucial problem which is seen in the high politicization of this sector. It is shown that Germany only partially succeeded in implementing its policy preferences in the eurozone's anti-crisis policy. This only holds for its claim for austerity and structural reforms, whereas it has not been influential enough to prevent the European Central Bank's counterproductive ultra-loose monetary policy and its enlargement of power. It is contended that in the eurozone crisis Germany has so far performed the role of a pragmatic rescuer rather than of a merciless tormentor.