To what extent has German EU policy contributed to stabilizing the euro? The policy paper traces how the German concept of a “stability community” has shaped the common currency.

Henrik Enderlein, Katharina Gnath and Jörg Haas show that in the euro’s founding phase, German demands concentrated on low inflation rates and low levels of government debt. Yet it became apparent in the crisis that Germany’s idea of stability was narrowly defined. Apart from a lack of budgetary discipline, key destabilizing factors included current account imbalances, a lack of crisis management tools, and the self-reinforcing dynamics between weakened banks and over-indebted states – all of which had all been all but ignored prior to the crisis.
Over the course of the crisis, the German government has broadly adhered to its traditional concept of stability based on control and supervision of eurozone members. At the same time Germany repeatedly acted in a pragmatic manner to safeguard the existence of the eurozone. It was willing to lend support to the creation of the European Stability Mechanism and the Banking Union and countenanced the ECB’s extraordinary measures.

The authors argue that despite the reform efforts of the past years, the eurozone still has some serious design faults that threaten the very stability of the common currency. Yet member states disagree on the necessary parameters for a stable currency union and differences in perceptions and preferences have met head-on in the course of the recent reform debates. German policy on Europe should try to play a constructive role by spelling out under which circumstances increased risk sharing in the euro area would be acceptable.

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