The euro – more than just a currency

Working together is worthwhile; growing together even more so. After more than 20 years of the single market and 15 years of monetary union, the members of the European Union – once referred to as the European Community – are interwoven. Indeed, they are very closely interconnected. Despite this, in the face of heated debates arising once again over a looming sovereign default by Greece, there is once again an uneasy feeling about having to pay up for the debts of other member states. In Germany, the largest contributor country, the willingness to act in solidarity is steadily decreasing. And this is despite the fact that Germany profits from the euro in many ways. Even in the country with the strongest economy, many are asking themselves whether this is the beginning of the end for the euro zone.

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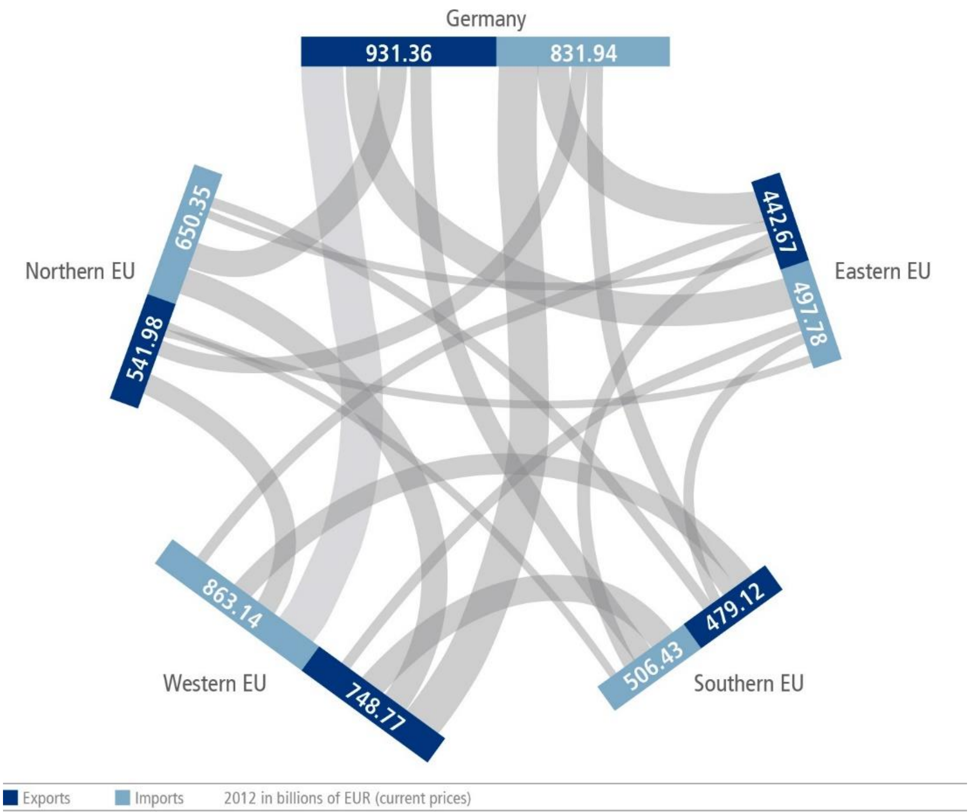
The single market – a reliable partner for global competition

Intra-EU trade is a two-way street. Other member states buy from German companies, and they also sell goods to German companies themselves. To be able to manufacture high-quality products, German companies need semi-finished goods, such as brake discs for the automobile industry. These are often imported from the Czech Republic. Plant manufacturers and the metal industry also use unprocessed goods from other European countries. Germany's chemical industry alone recently paid more than EUR 60 billion for semi-finished goods from other EU member countries. According to a study by Prognos AG – commissioned by the Bavarian Industry Association (VBW) – the value of unfinished goods from German industry in 2012 ran to USD 409 billion.

The same is true for Italy. Italy is interconnected with Germany and France, which are both important destinations for Italian machinery and transport equipment, chemicals, textiles and wine. France in turn finds customers in Germany, Belgium and Spain for its machinery and agricultural produce. But what about Germany? The German economy benefits from its neighbours because these countries appreciate the quality of German cars, power saws, assembly lines and tools.

The citizens of Europe now take the smooth running of the single market for granted, every single day. They can buy mozzarella from Southern Italy in London, travel without a passport from Riga to Rome or move from Salamanca to Stuttgart for a well-paid job.

Trade links in the EU



Trade in billions of EUR (current prices); conversion rate: USD 1 = EUR 0.7783 (Source: OECD)

Source: UN Comtrade

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Interconnected added value – too closely integrated to go it alone

It is easily forgotten that the interconnection of economic activity created during decades of European integration is founded upon stable, well-functioning business models: tried and tested specialisation, which is not properly represented in the balance of payments and trade, since these are still only based upon national figures. The result is a false picture, which disregards the dependence of jobs in one country on those in a neighbouring one. This sustains an illusion that it is perfectly possible to go it alone.

When German companies – winners of globalisation in so many ways – go shopping in Europe for semi-finished goods, they not only boost the balance sheets of their suppliers within the single market, but they create jobs in Europe at the same time. In Poland, there are some 600,000 jobs dependent on demand from Germany. In the Czech Republic, the Netherlands and Romania, there are more than 300,000. Overall, German companies provide 3.5 million jobs in EU countries and those jobs in turn generate demand, which Germany itself benefits from, according to the 2012 Prognos Study.

So could Germany be likened to a locomotive drawing fuel from the wagons it is pulling along with it? That is fair to say, but the comparison goes further than that. Value chains are far less limited by national economic boundaries than they were before the euro was introduced. These chains extend across borders and are closely interconnected. Companies within the single market coordinate their business models and promote research, development and innovation together, as well as jointly developing new services. From an international perspective, the reliability of these value chains, which have become integrated over time, is not only seen as a clear advantage for German companies in terms of their location, but it attracts investment to Germany from all over the world.

This means that the integration of value chains in the EU single market mobilises global investment. As a result, Chinese investors happily rely on Germany as the place from which to carry out business in Europe. South American countries also take advantage of this level of German economic integration. This is particularly true of Brazil, an emerging economy with a tradition of maintaining close links with German business partners. These links could be closer still. According to a study by the Bertelsmann Stiftung called "Brazil and Germany: A relationship in the 21st Century", the two countries have numerous common interests. "If these were consistently pursued and coordinated at government, institutional and investor levels, advantages for both sides in trade, technology and other areas would quickly become apparent".

The European regions and the economic structures which have developed there have a direct impact on development and potential for cooperation between Europe and the rest of the world. The example of the North Rhine-

Westphalia regional cluster, which is built around industrial materials, shows to what a great extent this region is dependent on an efficient connection with the docks of Antwerp and Rotterdam. This connection benefits not only the Netherlands and Belgium, but also has a direct impact on the economic and industrial policy agendas of regional political players.

Taking all this into account, it is evident that Germany is a clear winner from the European single market. As a result of integration, German economic output increased by an average of EUR 37.1 billion per year between 1992 and 2012. This is equivalent to additional average annual gains in income of EUR 450 per capita (see Bertelsmann Stiftung study "20 years of the European single market: growth effects of EU integration").

While the advantages arising from the European single market had already been analysed as far back as 1988 ("Cecchini report") and there are figures to support them, the risks associated with a collapse of the market only became clear during the global financial crisis of 2008 – 2009. And these risks have persisted since 2010 and the beginning of the euro crisis, creating chasms within the euro zone.

The euro – the link to closer political integration

The euro was once the crowning touch to European integration, but during the crisis it has developed into more of a divisive force than a unifying one. Fault lines between national economies have become clear and imbalances have come to light. Those economies in Southern Europe which are in need of reform and highly indebted are increasingly at risk of missing the opportunity to catch up with the dynamic economies of Northern Europe. Bail-outs have been set in place and guarantees given that the stragglers are to be given a hand. However, this has caused discontent across swathes of the European population. Most obviously, in the Southern European countries undergoing the reforms, where the economic crisis has brought great hardship and left a whole generation bereft of a future. However, in Northern European countries too, disillusionment is spreading. Germans yearn for a return to the Deutsche Mark. In the study "How Germany benefits from the euro in economic terms", 65 per cent of respondents said that they would be better off today if Germany had retained the Deutsche Mark. Anxiety that in the end, it will be necessary to pay off other member states' debts seems to generate a kind of nostalgic mirage: a false memory that everything used to be much better when each country had its own currency.

But this nostalgia errs. The facts show that in Germany, growth of GDP in real terms would have been half a percentage point lower under the old currency. What is more, a return to the Deutsche Mark involves incalculable risks; the failure of the monetary union integration project would have a high-risk impact on the functioning of the single market. To turn one's back on the euro would be to play with fire, and this remains true even as the latest developments in the row over Greek debt seem to increase the temptation to do so.

Protest parties in Europe – "The spirits I have summoned..."

Since the political upheaval in Greece, a fierce debate has swept across Europe. This has unleashed dangerous political forces and European citizens now feel as if they are all sitting in the same, small boat. Across the board, citizens now have an interest in the political situation in other EU countries. They are becoming aware of the fact that what happens in Athens affects us all. Greece's mountain of debt (EUR 320 billion) is borne by the euro zone. It is borne by the European Central Bank, the European Stability Mechanism (ESM) and the member states or quasi-state institutions, such as German development bank KfW. This therefore means that it is borne, de-facto, by the European taxpayer. These are debts which are borne jointly. Yet Greek Prime Minister Tsipras is demanding debt relief, that Greece go back on its austerity and reform promises and that the Troika be de-toothed. By doing so, he is putting at risk his country's place in the monetary union over the long term.

The level of debt will leave him little room for manoeuvre. "A debt cut – and here we are not talking about a private debt cut, but about a debt cut by the public sector, that is, by the European governments – a debt cut of this kind would in fact create far more room for manoeuvre," stated Henrik Enderlein in the latest edition of "flashlight Europe" ("Tsipras will have to put his cards on the table", No. 1 January 2015). Concessions at this point are problematic and will require time, since there is no wish to "strengthen the left-wing or right-wing populist movements opposed to the euro zone in Spain, Italy or France by reaching an agreement with Syriza too fast and too soon," according to Enderlein.

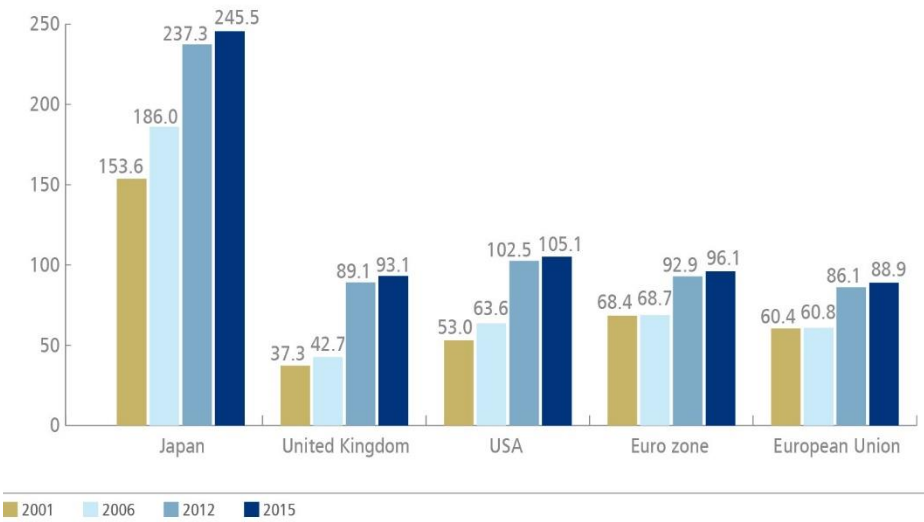
It is true that opposition groups, such as the Five Star Movement and the Lega Nord in Italy and the new Spanish party PODEMOS have a close eye on the government in Athens. They believe that if the Euro Club compromises with the Greeks it will open the door for demands from Spain, Portugal and Italy. Reform-minded governments presently in power would come under pressure to justify sticking with austerity and reform. The modernisation process intended to help these countries become competitive would be called into question and with it, the economic dynamism which can be achieved through these reforms.

Economic governance for the euro zone – a political decision

Since the beginning of the crisis, there has been a great deal of discussion and many decisions made. However, despite many positive developments, the underlying causes of imbalances between national economies, particularly on the periphery of the euro-zone, have not yet been resolved.

Evolution of public debt levels in selected countries and regions

State debt as a percentage of gross domestic product



Source: International Monetary Fund, World Economic Outlook Database, October 2014. Figures for 2015: Forecast data.

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Everything which has been done so far has shown that “One size fits none” (Study “Repair and Prepare” by the Jacques Delors Institute – Berlin and the Bertelsmann Stiftung). Economic governance must be able to prevent crises, smooth out imbalances with the help of adjustment mechanisms and absorb external shocks. This can be achieved through a “modernisation pact”, in which the regions are taken sufficiently into account in economic and industrial policy and which is supported by all euro-zone countries. For this reason, several amendments urgently need to be made to economic governance in the euro zone. Incentives and sanctions need to be proportionate. Member states’ fiscal policies need to be more closely coordinated.

However, it will take time before a step towards modernisation of this kind can be made. Not only because individual euro zone countries are blocking it, but also as the necessary steps, e. g. setting up a European Monetary Fund with the know-how to help deal with crises, will require changes to EU treaties. At the present time, renegotiating the treaties would be akin to opening Pandora’s Box. Since the European Parliament elections in May, political decision-making procedures, which were already complicated enough, have become even more so.

Following that election, alongside Christian and social democrats, greens and liberals, there are also larger numbers of right-wing populists, right-wing extremists, pro-traditional family politicians, EU sceptics and anti-euro MEPs, sitting in the parliament. Alongside Geert Wilders' Party for Freedom from the Netherlands, there are right-wing conservatives from Poland who consider women's suffrage an idiotic idea. Italian comic Beppe Grillo with his Five Star Movement, who prefers to manage his supporters via Twitter and Facebook, is also represented. They are flanked by MEPs from the United Kingdom Independence Party (UKIP). Party leader Nigel Farage has succeeded in making his anti-integration forces into "an integral part of the mainstream". At home in Great Britain, UKIP "is not only at the centre of British debate. It also leads it." (spotlight europe, "The Populist Networks" May 2014). Yet another strand is represented by Marine Le Pen's National Front, which has a tendency to drive its national agenda via Europe.

The march of the euro sceptics, who benefit from the pain of the adjustments being made in the debtor countries and the discontent in Northern European countries, has made it an uphill struggle every time a majority in the European Parliament has been required. In order to be able to make decisions of any kind, a de facto grand coalition has emerged, with the European People's Party (EPP) and the Progressive Alliance of Socialists and Democrats (S&D) often pulling together. This means the anti-European parties remain without a decisive influence. However, the Greeks stubborn move away from reform and their revocation of all previous agreements is darkening the mood. Voices against the euro are be-coming louder and are calling for their countries to leave the euro.

Repair and prepare – for an improved and reformed monetary union

The euro is not an end in itself, rather it greases the gears of the single market and a Europe unfettered by lines on a map. It presents an opportunity for member states to create economic interconnections and net-works for the good of their own citizens. Only within the euro can Northern European countries shape the future and indebted countries catch up – as long as they understand that they have to orient their business model to-wards competitiveness. Growth is only possible by way of this common market. And Europe needs growth and a dynamism in keeping with the economic area. If deftly drawn up, the investment package from President of the Commission, Jean-Claude Juncker, could take a further step to-wards the deeper integration of the single market, particularly with respect to the markets for capital and services. Investment in future-oriented training and education, efficient health services, interconnected energy markets and swift digitalisation are essential for more dynamic growth in productivity, all along the value chain in our society. Only by improving global competitiveness can we create and safeguard jobs for future generations. However, a necessary condition for this is that Europe's investors are also involved and not only public funds but also private funding can be mobilised. This requires trust – not only between the euro partners but also from the financial markets – in a currency that despite all its successes has not yet proved its durability.

"This confounded game with Greece" as the Frankfurter Allgemeine Sonntagszeitung recently put it, is a game with an uncertain outcome, both for the Greeks and for their European partners. Every crack in the euro zone is loaded with risk and threatens the existence of the monetary union. If we wish to maintain the euro zone, we need to have a discussion over debt management, an insolvency procedure for member states, a functioning banking union and instruments to prevent imbalances in the euro zone. And we need a just amount of solidarity, which enables member states to help themselves.

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