Geopolitical Diary Analysis of the Key Event of the Day

# Concerns About Germany's Commitment to the Eurozone

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The Eurogroup meeting Tuesday failed to deliver a concrete solution to the ongoing European crisis. Jean Claude Juncker, the head of the Eurogroup, said once more that the aim is to increase the firepower of the European Financial Stability Facility (EFSF) by leveraging the remaining 250 euro billion guarantees to more than one trillion euros. He suggested a broader involvement of the International Monetary Fund in helping to solve the eurozone crisis and expressed hope that success is near. New options were introduced at this meeting and further discussions are being planned. But a sense of futility surrounds the EFSF, the EU flagship bailout fund. German Finance Minister Wolfgang Schaeuble said the facility was overly complex, implying that investors wouldn't adopt it. Even after today's meeting, diplomats said that it is unlikely that measures can be taken to leverage the EFSF above one trillion euros, a sum that could allow it to fund bailouts of a limited number of countries on the Continent for about a year. With such a dire atmosphere surrounding thes talks, a tangible outcome could not be expected, since Germany has not yet had its demands answered. Implementing a fully funded and credible bailout mechanism today wou remove the motivation for the highly indebted peripheral economies to accept the profound and binding fiscal controls Germany requires.

Negotiations on managing Europe's economic crisis are complex, and Germany seems to b indicating that it is willing to stand by its agenda no matter how prohibitive the cost is to the eurozone and consequently to the European Union. This stance is what Polish Foreign Minister Radoslaw Sikorski was referring to when he said Monday that he fears German power less than he fears German inactivity, adding that Germany has become Europe's indispensable nation. Sikorski's statement should not be understood as a call for greater German power  Poland would be one of the first nations to be wary of any expansion of simply get on with it and bail out the European periphery despite the fact that this could mean a stronger European integration -- especially of the core around Germany. Lately the feeling is that the endless negotiations should cease and catastrophe should be simply averted by giving the European Central Bank (ECB) the role of the lender of last resort. Even as German officials prepare to present next week their latest plans to consolidate anc salvage the eurozone, Berlin's commitment to the effort remains questionable -- and it must be balanced against its implicit threat to abandon the eurozone.

It is difficult to overstate the impact of such an outcome. If the eurozone were to break up, i would cause a panic that far outstrips the fear caused by the Lehman Brothers bankruptcy. Trade would likely grind to a halt as credit retreats to safety, financial markets weather devastation and economic output withers. On the other side of the table, sovereign nations are being asked to relegate fiscal responsibilities to outside interests. This request has large-scale implications for national self-determination -- a mainstay of political thought in th modern era -- and it introduces questions about the operation of national security, social welfare and defense policy, among others.

With inflexibility on both sides of the negotiations bearing such dire consequences, it would be reasonable to expect the European players to gravitate toward the center. Germany has already overseen the release of multiple tranches of bailout funds for Greece, for example, despite Greece’s failure to meet austerity targets. Now technocrat Greek Prime Minister Lucas Papademos has signed a document agreeing to a more advanced set of fiscal monitoring and controls in exchange for further bailout funds. It remains to be seen how wel this agreement will be implemented. Greece has proven especially adept at circumventing regulatory and reporting requirements, and Germany will not risk eurozone dissolution over 10 billion euro tranche of bailout funds. Across the Adriatic Sea sits Italy, whose troubles present a far greater danger to the eurozone than Greece. Italy, despite having no credible austerity program, continues to receive behind-the-scenes monetary financing from the ECB, something the Germans publicly profess to be off the table. The German inactivity Sikorski fears threatens the existence of the eurozone in its current form. So far Germany h d ll i it ff t t b ti d i d i B li h h th t iti t illi