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Greece Takes Steps to Solve Its Problems, While Germany Gropes to Define Its Future

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Greece has solved its problems. Germany's remain to be solved.

The Greek authorities now know what the future holds. They will more or less stick to their austerity program. There will be more-than-occasional street demonstrations, which might require a bit of trimming here and there, but nothing major. The markets will make funds available, although at a significant premium over the rates charged countries that haven't done excessive violence to sound accounting principles or run extraordinarily high budget deficits. And if worse comes to worst, Greece can count on an implicit guarantee, one that dare not speak its name, that its richer, more prudent co-inhabitants of the euro zone won't allow it to default.

In short, the Greek government can see its future, which might be unlovely but is at least clearly laid out for it by the markets and its colleagues, most notably Germany.



European Pressphoto Agency

German Chancellor Angela Merkel, right, welcomed Greek Prime Minister Giorgos Papandreou at the Chancellery in Berlin.

It is Angela Merkel's country that hasn't solved its problems and is groping to define its future. Financially numerate German officials know they can let Greece default only if they are willing to sacrifice the European-integration project. But they also know that German voters won't tolerate a bailout of a country they feel hasn't gone through the restructuring pain that kept German wages down, making German goods competitive in world markets. Or hasn't foregone jam today to keep its budget deficit within a hair of the 3% mandated by the Growth and Stability Pact that was at the heart of the agreement to form a common currency. So Ms. Merkel shouts "no bailout" to appease voters, while her officials try to fashion one that can plausibly go by another name.

That device might be needed sooner rather than later as it is difficult to predict whether or when the bond markets might turn on Portugal or Spain, the two likeliest candidates for a negative reaction to their fiscal condition, protestations of these countries' governments notwithstanding.

That is not Germany's only unsolved problem. It must also decide how much Brussels-based discipline to impose on individual members of euroland. The discussion now is all about controlling the profligate policies of the periphery countries. But, given the authority, Brussels bureaucrats might turn on countries that fail to provide the stimulus they feel the euro zone requires—meaning they might try to tell Berlin to increase its deficit to provide a lift to the entire stagnating area. Inflation-wary Germany therefore must find a way to allow intervention in the affairs of the fiscally profligate without allowing symmetrical intervention in the affairs of the fiscally prudent.

That isn't all. Greece can't solve its problems unless in addition to putting its fiscal house in order it also develops industries that can compete in world markets. There aren't enough olives to pay for all those Mercedes and other German-made goods that Greeks have been importing. Wages are too high, and productivity is too low in Greece, Spain and other "bubble" countries to allow them to expand their exports to core EU and other countries.

In the good old days of the drachma, peseta and lire, these noncompetitive countries could devalue their currencies, as the

British are doing with sterling (to little effect so far, it must be noted). But with interest rates fixed by the European Central Bank on a one-size-fits-all basis, Germany dominating euro-zone markets, and the euro holding its own against the dollar in the past year despite a small drop in recent months, that route is closed. Even the suggested sale of state-owned assets—no, not some islands or the Acropolis—would be only a temporary palliative. Selling the family urns to fund current expenses isn't the route to a sound future.

Compounding the problem created for Greece and similarly situated countries is the reluctance of German consumers to spend. In the absence of a surge in domestic demand, Germany's recovery from last year's 5% decline in gross domestic product depends heavily on its ability to increase its exports even more, driving even higher its almost €140 billion trade surplus, the largest in Europe and three times that of second-placed Netherlands. That's bad news for countries that have been running trade deficits, which is all the countries now in trouble.

Here's a guess at how Germany will finally confront the dilemma created by its need to export its way out of recession while enabling troubled economies to remain in euroland: Conceal any bailout by giving guarantees to German banks that buy Greek and other debt if markets set impossibly high interest rates; arrange a mechanism for tighter supervision of debt-ridden countries; and avoid any policy that either requires a reopening of the Lisbon Treaty, such as a European version of the International Monetary Fund, or threatens the German export machine.

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