

## **Rise of the Fourth Reich, how Germany is using the financial crisis to conquer Europe**

By SIMON HEFFER

Yesterday's crisis meeting between Angela Merkel and Nicolas Sarkozy was arranged before the participants knew of the disastrous growth figures in the Eurozone that emerged in the morning.

The background to the meeting was last week's tumult in the world financial markets. Shares had gone into freefall after the downgrading of America's credit rating.

Worse than that, however, were the tremors rattling some of Europe's most important banks, notably in France, caused by further evidence of the utter failure of even the more developed European economies to live anything like within their means.

Chancellor Merkel has managed to use the hard-earned money of German taxpayers to bail out profligate Eurozone countries without suffering any political fall-out. This is unlikely to remain the case and Mrs Merkel knows it.

That is why yesterday she played down talk of the European Central Bank — funded by German-backed Eurobonds — paying off the debts of these all-but-bankrupt nations.

Instead, there was forceful talk of Eurozone countries being coerced into balancing their budgets and reducing their debt through what Merkel and Sarkozy called a 'true European economic government movement' made up of all the heads of state and led, initially, by the EU President Herman Van Rompuy.

Frau Merkel called for a 'stronger coordination of policy' and 'a new quality of cooperation' within the Eurozone.

Although she will not yet admit it, this all suggests the first step has been taken towards a fiscal union that will leave Germany dictating the financial terms for the rest of Europe.

It is the one country that is able to do so. Greece, Ireland and Portugal are economic basket cases. We have heard more and more about the trouble in Spain, where unemployment is over 20 per cent.

Italy is tottering — the figures for 2010 show it has debts of 116 per cent of GDP, making the country second only to Greece at around 143 per cent.

Meanwhile, the recent addition of France to the list of at-risk economies has caused real shock and panic across the Channel. Its banks hold about an eighth of Greek debt, or \$57 billion, its stock market has tumbled and credit rating agencies are talking of removing France's triple A status.

So, after a summer of increasingly shrill panics around the Mediterranean, the contagion is moving north. Individual bail-outs have been tried, but they obstinately refuse to work. Only an idiot would think they would: they treat only the symptoms of Europe's economic decline, not its causes.

If only everybody could be like the Germans, and spend just a mite more than they earn, then all would be well, the markets seem to say.

Germany lay in ruins in 1945, but it then invested in manufacturing plant, developed first-class education, innovated, raised its productivity and competed on quality not price.

Over the next 60 years it won the peace as comprehensively as it lost the war.

If the euro is to survive — and with it the European project — the other 16 Eurozone countries will have to be like the Germans. Indeed, they must lose the freedom not to be like the Germans.

That means a complete fiscal union in which Germany, as the EU's most powerful economy and principal paymaster, makes the rules and makes them unbreakable.

George Osborne interrupted his holiday in austerity-free Beverly Hills a fortnight ago to make this point by telephone to the European Commission and the ECB.

It is a high-risk strategy on his part, for if such a plan succeeded it would make Europe effectively a German empire, with non-Eurozone countries such as Britain on the sidelines.

Mr Osborne clearly believes we have no choice. His concern is that if the European economy implodes we would be badly damaged: not so much because of the debt owed by countries such as Greece to British banks, but also because of the loss of export markets in the Eurozone countries and investment by them in Britain.

However, the prospects of Germany's partners in the Eurozone are starker still.

If the global financial markets continue to have no confidence in the sticking-plaster rescue packages offered by Eurozone leaders, some nations will go bankrupt — one or two, such as Greece and Ireland, are already more or less trading while insolvent.

They may hope their salvation, apart from pulling out of the single currency and devaluing, would be to accept Germany properly bolstering the euro and effectively colonising the Eurozone.

This would entail a loss of sovereignty not seen in those countries since many were under the jackboot of the Third Reich 70 years ago.

For be in no doubt what fiscal union means: it is one economic policy, one taxation system, one social security system, one debt, one economy, one finance minister. And all of the above would be German.

That is not merely the price the markets would demand to be confident about the euro's future, and to be happy to buy debt that could help fund Greece, or Ireland, or Italy. It is also the price that Germans themselves seem to be demanding for their support.

Stern, the German news magazine, conducted a poll last week among Mrs Merkel's own supporters that showed that 52 per cent were opposed to her bail-out policy, and 62 per cent worried about the course of her party generally.

She is only two years from having to fight another election and cannot defy democratic gravity for ever.

Germany has already pumped 120 billion euros into the 440 billion bail-out fund. It is the fifth biggest economy in the world, which would mean that imposing its way of doing things on the other 16 nations would carry tremendous clout internationally.

It also has another reason for needing to shore up its partners: 42 per cent of its exports go to the Eurozone, with France alone taking 90 billion euros' worth a year.

However, the latest figures show that demand for German goods is slowing, as is German growth. Shortly before the extent of the French problem with Greece was made public, Commerzbank — one of Germany's leading banks — announced that it had to use 93 per cent of its second-quarter profits to write down \$1.1 billion of Greek debt.

If Germany is to continue to prosper, Europe must prosper: but a ruthless solution may have to be imposed in order for that to happen. If the European project is to continue, Germany will not merely have to underwrite it, but control it.

The recently-agreed European Financial Stability Facility is not the answer. It is just another in a series of sticking-plasters that allows the ECB to buy the bonds of debtor nations to keep them solvent.

All these sticking-plasters are designed in the belief that the wound will not become yet more gaping: but it always does.

The alternative is the massive surrender of sovereignty to Germany by the rest of the Eurozone that would allow the economic policy of Greece, Ireland and Portugal to be made in Berlin.



The recently-agreed European Financial Stability facility allows the ECB to apply sticking-plasters to some of the debtor nations, but is not the answer to the crisis

That would reassure the markets, but it would also remove any pretence of democracy in those 16 countries: for once you have lost control of your economy, you have lost your sovereignty.

Every spending department in every government in the Eurozone would have its policy made in the old capital of Prussia.

And if the people did not like their governments being left with fewer powers than a county council, that would be tough. The alternative is ruin.

Where Hitler failed by military means to conquer Europe, modern Germans are succeeding through trade and financial discipline. Welcome to the Fourth Reich.