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Germany Is in Danger of Stealing the U.K.'s Euro-Skeptic Crown

Which is the European Union country most critical of developments in the euro zone? For most of the past 20 years the U.K. has been the walk-away winner of the All-Comers Euro-Skeptic trophy.

But this year a surprise challenge is coming up on the rails. Place your bets on Germany, whose reticence to go along with a massive loan package for Greece has infuriated France and brought profound questions to bear on the future of the single currency project.

German Chancellor Angela Merkel was a reluctant convert to the so-called shock-and-awe €120 billion ($150 billion) tally of support measures last week designed to stop the hemorrhage of funds from Greek government bonds spreading into a major crisis across the Euro zone.

The stakes could hardly be higher. The president of the European Central Bank, Jean-Claude Trichet, warned last week that Europe was living through the most difficult situation since World War II, and perhaps World War I.

Ms. Merkel's scepticism sparked, according to some dramatic accounts, a fiery tantrum by French President Nicolas Sarkozy at the Brussels summit and a threat to pull France out of the euro.

The German central bank, the Bundesbank, has also been critical of the support package, fearing both the fact of the breach of the no-bailout clause of the euro zone's Stability and Growth Pact and the breach's precedent-setting nature.

The tone of German skepticism on the current governance of the Euro has stiffened markedly in recent weeks.

After the ECB's decision to purchase government bonds, German liberal finance expert Frank Schäffler has demanded the immediate replacement of Mr. Trichet by Bundesbank chief Axel Weber, saying that "the purchase of junk bonds is the guillotine for the euro."

The skepticism from Berlin, far from melting after the announcement of the package, has spread widely. The euro continued to fall to a 14-month low against the dollar, reflecting a widespread view that the loan agreement has not solved the crisis but merely postponed it.

Adding to the angst of the German chancellor is that her decision to go along with a Greek support package has done her no favors politically.

Her CDU-Free Democrat coalition lost its majority in the upper house after a drubbing delivered by the voters of North Rhine Westphalia ten days ago. Their opposition to the government's concession shows the extent to which there is not, and perhaps never has been a European *de mos*
, however much it is invoked by EU officials.

A recent poll in Germany by the Allensbach Institute has found that half of Germans want the German mark back.

On top of the voter rejection, market worries have spread to the credibility of new austerity programs announced in the past week for Spain and Portugal.

To say that Germany is disenchanted with the way that the single currency has been weakened by Greek budget indiscipline would be an understatement. Germany, unlike France, does not view the weakness of the euro as evidence of a pre-planned assault by Anglo-Saxon hedge fund "wolf packs," but as symptomatic of deeper problems within the construct itself—and in particular the failure of some euro members to implement the same fiscal discipline as Germany.

In what now looks to be an act of vengeance against the European Commission and France in particular, the German government is now applying pressure on other euro-zone countries to copy Berlin's controversial example of its balanced-budget law passed last summer.

Germany changed its constitution by introducing a law prohibiting the government from running a budget deficit of more than 0.35 per cent of GDP within six years.

The proposal is due to be presented in Brussels on Friday at the first meeting of the working group set up to consider closer economic-policy surveillance. They mark a German conviction that lofty assurances and earnest promises of deficit reduction from the euro zone's "Club Med" economies can't be counted on: only a legislative commitment to balanced budgets will suffice.

Critics argue that not only will this condemn Germany to slow economic growth but also that, if applied across the euro zone as a whole, it will trigger a debt deflation more severe than that which crippled the continent in the late 1920s and early 1930s.

In this crisis atmosphere, no option is being excluded. EU Trade Commissioner Karel De Gucht has raised the possibility that Greece would have to leave the euro zone, saying: "I think that Greece is obliged to do the reforms. If not, one will have to decide at some point that Greece is no longer within the euro."

And the German newspaper Bild quotes former CSU leader Edmund Stoiber saying: "when a state refuses to bring its finances into order, then it should be possible that the other members of the euro zone exclude it".

Such language would have been unthinkable six months ago. But Germany is making clear that if there is to be greater fiscal and political integration to make the euro work, it will be on its terms, or none at all.

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