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VIEWPOINT

Schröder's New Europe

Josef Joffe

THE STABILITY AND GROWTH PACT WAS GERMANY'S PRICE FOR giving up the sacred deutsche mark in favor of the euro. No way would the country allow those profligate Italians and other high rollers to debase the new common currency by spending more than they could afford and running high deficits that would ignite inflation. So every member of the monetary union had to don a whalebone corset "Made in Germany." Above all, nobody could generate a deficit higher than 3% of GDP. Or else.

"Or else" meant, first, an official warning from the E.U. Commission: "*Achtung,* you are getting too close to the target. Mend your ways—now!" Second, it meant heavy financial penalties if the limit was breached. Thus, Teutonic discipline would reign from Cork to Calabria, Portugal to the Polish border. Back then, nobody imagined that Germany would ever act as fox in charge of the chicken coop. But this is precisely what is happening now.

Not only is Germany edging ever closer to the 3% mark, but Gerhard Schröder, with a mixture of heavy-handedness and hauteur, has even muscled the Commission into withholding the obligatory letter of warning. How could he do this? If you run the biggest economy in the E.U., you can. Especially if you get two more biggies, in this case, France and Britain, to go along, or at least not to oppose you.

The outcome is a victory of sorts for Schröder, who must face the electorate in September, but a disaster for Europe. If the preacher goes off the wagon, why should his flock stick to sobriety? How will the Commission be able to chastize Italy, Portugal and France, whose deficits are swelling, if it caved in to the Berlin bully? The euro, which since its inception in 1999 has plunged nearly 25% against the dollar, will surely not rise soon.

Nor is the stiffing of the Commission the only sin of the once so Europe-minded Germans. Indeed, Schröder has racked up quite a record in recent times. Take cars, something very dear to the European consumer. Competition Commissioner Mario Monti wants to break up the informal shelters that allow carmakers to charge different prices in different markets. But Schröder, eyeing the profits and employment rolls of VW, Daimler, Opel et al., doesn't like it. Liberalization of the energy market? No, says Berlin, we don't want a European regulatory commission that would set Europe-wide "tolls" for power transmissions. Why not? Because such prices are now the highest in Germany.

How about telecoms? The German Economics Ministry is blocking access to the highly lucrative local market (as opposed to the ultra-competitive long-distance market), where Deutsche Telekom holds a virtual monopoly. It is now cheaper to call New York from Berlin than to make a local call in the German capital

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during peak hours. Hence, watch for the next row with Brussels—over Europe-wide regulations that would open up the telecom industry's "last mile," the one to your home.

The moral of this tale is "neomercantilism," the protection of one's home market against competition from abroad. The Schröder government has become quite shameless in this game, using its muscle in European councils as if it were the direct descendant of Louis XIV and his protectionist Finance Minister Jean-Baptiste Colbert.

Nor is this just a story of Berlin vs. Brussels. The drama that is currently roiling German politics is the fall of Leo Kirch, the mysterious media magnate who controls a bundle of TV networks, plus the rights to warehouses full of movies and other goodies like the next soccer World Cup. He is in hock to the banks for about €6 billion ($5.2 billion), and lots of loans are coming due these days. When Rupert Murdoch, the Australian-American ruler of a globe-spanning media empire, offered himself as a savior, Schröder sent out the signal: "No foreigners!" The word was spread that the Chancellor preferred a "national solution"—as he did in the case of John Malone, an American whose Liberty Media wanted to invest big time in the German cable industry but was frozen out on the argument that Liberty would gain too much market power.

And a helpful investment it would have been. For instance: Deutsche Telekom (whose network Malone was eyeing) now offers only 760-kilobit bandwidth to private users, whereas in the U.S. they can surf at the speed of 5 megabits. Again the basic mercantilist motto is this: "Don't help the consumer, protect the producer"—by keeping out foreign competition.

But this is also a sad tale for Europe. Facing more than 4 million unemployed, the Schröder government has evidently concluded that it can make electoral hay by keeping change and competition at bay. The Chancellor may also calculate that telling Brussels where to get off will garner him votes in September as well. It may or may not. Meanwhile, who is going to take care of Europe? For decades, Germany was the engine of integration. If that engine begins to stutter, neither France nor Britain is going to provide the push. In fact, they must be quite happy to watch mighty Germany play brakeman in the caboose. ■

With elections beckoning, Schröder is in danger of favoring protectionist interests

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