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Merkel's moment

GERMANY II

Germany and France have always led the E.U. But is Germany up to the challenge? The time has come for Angela Merkel to show that it is.

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BERLIN Leadership of the European Union from the beginning has fallen on Germany and France — Konrad Adenauer and Charles de Gaulle, Giscard d'Estaing and Helmut Schmidt, Helmut Kohl and François Mitterrand. Now it is Angela Merkel and Nicolas Sarkozy, and at their last meeting they signaled that they are aware of the depth of the current crisis and are committed to keeping the euro alive. But is Germany up to the task?

Over the past 18 months, dealing with crises in Greece, Japan and Libya, Berlin has appeared evasive, absent, phlegmatic or unpredictable. We refused to deal with Greece's insolvency until it became an existential European crisis; after the Fukushima nuclear crisis we panicked, and without consulting our neighbors, we closed down our nuclear power plants. We abstained in the U.N. vote on military action in Libya, abandoning our NATO allies. And it is Germany which is again making the deepest cuts of any NATO ally to its defense budget.

In the past, calls for German E.U. "leadership" have been code for getting Germany to pay — which we did willingly under past chancellors. But European unification is no longer a matter of war and peace, a moral imperative grown out of the two world wars of the 20th century. German politicians of Merkel's generation worry less about historic consciousness, are more inward-looking and tend to view NATO and the trans-Atlantic relationship as relics of the Cold War.

In this Germany, people resent being asked to spend their money to save the euro. We have a case: over the past 15 years, while the "Club Med" countries of Greece, Portugal, Spain and Italy were enjoying a dolce vita with billions of E.U.-subsidies and cheap loans from their neighbors, we in Germany were going through a painful process of structural reforms, deregulation, high unemployment and stagnating wages in order to get our house in order. Now that our economics are sound, we are asked — pressured — to rescue prodigal neighbors.

Angela Merkel understands that she faces a risky rendezvous with Germany's European destiny. With Euroskepticism spreading to the Netherlands, Austria and Finland — not to mention her own Christian Democrats and their allies the Free Democrats — Merkel must lead an honest debate about Germany's role in Europe.

Two weeks ago, she delivered her first pro-Europe speech to the German Parliament since she took office in 2005, rightly stressing that "if the euro collapses, so does Europe," and that "Germany's future is inseparable from Europe's future."

But the speech fell short. First, Merkel should have pointed out that over the last six decades, no state has benefited more politically, economically and financially from the E.U. and from a strong and stable euro than Germany. If we punish our neighbors we punish ourselves.

Second, Merkel should have acknowledged that we helped make the mess that Europe is in today. As Gordon Brown wrote on these pages recently, the subprime crisis of 2007 was not solely an "Anglo-Saxon" failure, as many European leaders still like to portray it, but also a failure of German and other continental banks. These banks were far more highly leveraged, more dependent on short-term wholesale funding and much more vulnerable than even American banks.

These same German banks plowed €350 billion of Germany's nest egg (the savings surplus that is supposed to build wealth for our country's aging population) into the bonds of shaky southern economies. According to the Bank for International Settlements, Germany lent almost $1.5 trillion to Greece, Spain, Portugal, Ireland and Italy. The Club Med countries may have wasted a lot of money over the last decade, but we enabled them by pumping plenty of our money into their service economies while turning a blind eye to corruption and book-cooking.

Third, Merkel should have said that the euro is everyone's problem. Europe is the largest trading partner of both the United States and China, and one of the world's largest pools of wealthy consumers, and the euro is an important reserve currency worldwide.

A collapse of the euro zone will have catastrophic reverberations from Beijing to Boston to Riyadh and back. All of Europe's political and economic accomplishments of the last six decades will be rendered irrelevant. Europe has been and still is a role model for many people in the world. If it fails, the blame will be on Germany.

Only two choices remain: a breakup of the euro zone, or a closer economic and fiscal union.

All eyes are on Berlin. There is a strong, if silent, expectation in European capitals — as in Washington — that Germany will not forget its historic obligation to those who helped it rise out of the ashes of World War II and reunite.

Merkel has shown that she and Sarkozy can move European affairs; both understand that this is a moment of truth for Europe. The time for extemporaneous solutions is running out. Only two choices remain: a breakup of the euro zone, or a closer European economic and fiscal union. If Europe cares to remain a global competitive player, the only option is more integration.

First and foremost, Merkel and Sarkozy can and should declare that the euro zone is in a "state of emergency." This would allow them to translate the stabilizing measures they proposed at their last meeting in the Elysée — the creation of a common European economic and fiscal union — into effective multilateral action. This, in turn, would convince nervous financial markets that Berlin and Paris are serious about leading the process to finding, collectively, solutions to the E.U.'s debt crisis.

A serious common fiscal policy would include an E.U. finance minister, an idea that Jean-Claude Trichet, the president of the European Central Bank, proposed in May. Although this would require revising the Lisbon Treaty, a state of emergency would make it possible to take action immediately.

The new finance minister would have to be gifted and resolved to work with the European Central Bank and the European Monetary Fund (a successor to the European Financial Stabilization Mechanism to be launched in 2013). Wolfgang Schäuble, the Germany finance minister, or Leszek Balcerowicz, a former finance minister of Poland and president of the Polish National Bank of Poland, would be strong candidates.

All euro zone countries will have to swallow a lot of German medicine; after all, we have done our fiscal homework best. This means enforcing a new effective stability culture, harmonizing and monitoring fiscal discipline, requiring the 17 euro zone states to reduce deficits and write debt-brakes into their constitutions or national laws, and introducing strict sanctions mechanisms for those countries which fail to follow the new rules. Germany will only agree to the introduction of eurobonds to spread the responsibility for government debt across the euro zone if sinning countries can be punished — for example by losing certain E.U. subsidies or voting rights.

Crises create opportunities for radical change, and courageous leaders can transform those crises into change. Merkel must exert strong and courageous leadership if she wants to write and not exit European history. This "to-be-or-not-to-be" moment is a unique chance to finalize Europe's integration.

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