Written by Bruce Walker on April 24, 2012

German People Not Happy With Bailouts

The sovereign debt crisis in the European Union can be summed up fairly simply: The governments of overspending nations are asking the governments of fiscally prudent nations to prop them up. The prudent nations, whose governments pay their obligations out of revenue, rather than by selling bonds, tend to be those in the more financially conservative parts of Europe, such as Finland, Holland, and Germany. Those nations that are waist deep in debt, whose bond offerings have in some cases been reduced to junk bond status, tend to be in the south of Europe around the Mediterranean Sea.

As financial analysts look at the finance ministries and the economies of Greece, Portugal, Italy, and Spain, it seems as if the moment one crisis passes another arises. Recently, concern about a possible default on Spanish bonds is driving down the stock markets in Europe. Only by piggybacking on the creditworthiness of stronger E.U. economies and relying on the money that the strong economies can contribute toward the myriad bailouts can the improvident PIIGS nations dream of paying bondholders for their sovereign debts.

More and more, it seems that the stronger E.U. nations who have been paying their own debts are unhappy about providing bailouts for those who have not. Elections in Finland a few months ago presented evidence of a genuine popular revolt against doing more to help bail out nations such as Greece.

Professor Hans-Werner Sinn of Germany has recently said that German taxpayers perceive a dangerous increase in credit risk to their nation from the many bailout schemes. “The euro-system is near explosion. It’s a horror scenario,” the professor told the Austrian Economics Academy recently. Sinn warned that Germany is already taking the risk for much of the £1.72 trillion in rescue plans for the debtor nations, which could place catastrophic debts on Germans in the future. A dramatic increase in capital flight out of Spain, which has occurred despite the bailouts, is strong evidence that investors’ faith in the ability of Spanish banks to pay their debts in the future is shaky, and Spain’s weakness endangers the German financial system, which is heavily invested in that country. Moreover, the professor said that the financial aid Germany has given — which was intended to show an interest in helping those nations — has instead created angry blocs of debtor nations (i.e., the PIIGS nations) and creditor nations, such as Germany and Finland. The fact that the divide between blocs breaks more or less along a geographical fault line is surely adding to the stress of the situation as well.

The Munich-based Foundation for Family Business has filed a criminal lawsuit against the Bundesbank, the central bank of Germany, alleging that the board of the bank has hidden the true scale of the risk borne by ordinary German citizens in the bailouts. The bailouts involved “Target2” transfers, which are automatic credits extended to fellow central banks (which, in practice, has been the central banks of

Portugal, Italy, Ireland, Greece, and Spain). This “Target2” crisis has been a constant theme in recent German media reports, and Professor Sinn has been on German television frequently as a result. How upset are Germans these days? Polls have shown that 56 percent of Germans want to abandon the euro and return to the old Deutschemark.

Bundesbank officials and academicians from the PIIGS nations say that the concern is overblown. Jens Weidmann, chief of the Bundesbank, says that there is no problem as long as the eurozone stays intact. Officials in other German and Dutch banks say that the risk is still commonly shared by all the members, although one anonymous officer said that if the eurozone itself collapsed in divisions, no one knew what would happen and that he “worried about it every night.”

Professor Karl Whelan of the University College of Dublin blamed populism and the German media for creating a problem that does not exist. He said: “If the euro breaks up, there are still assets to go along with the liabilities. The likely outcome would be a ‘Bretton Woods weekend’ with a gentleman’s agreement to carve up the losses. Even if countries told each other to go to Hell, the euro would simply cease to exist and the Bundesbank could write a cheque to itself. There would be no inflation and no loss to the German taxpayer. We live in a world of fiat currencies, not the Gold Standard. People making these claims don’t understand how a central bank works.”

Professor Sinn, however, has not backed down from his claims of serious future problems for German taxpayers if the eurozone continues to provide bailouts and other assurances intended to keep the PIIGS afloat. He would seem to have a point, as fiat currencies often suffer from hyperinflation. Kurt Williamsen pointed out for *The New American* in February:

> By overprinting their money, 21 countries have experienced runaway inflation — essentially destroying their currencies — in just the last 25 years, including Russia, Argentina, Zimbabwe, Brazil, Poland, Turkey, Yugoslavia, often leading to horrible repercussions for the people in those countries. (In Russia, money that had been enough to buy a three-room apartment within a few months devalued and would buy only a pair of boots, leading to rampant malnutrition.)

Despite Professor Whelan’s talk about us all living in “a world of fiat currencies,” Milton Friedman once famously said: “There is no such thing as a free lunch.” Modern history has more than once proven Professor Friedman to be right.

Photo of Professor Hans-Werner Sinn: AP Images