German Politicians Dubious About Greek Economy

German politicians seem to be assuming that the default and then the meltdown of Greece seems only a matter of time. Greece's sovereign debt now has the status of junk bonds, and the Greek government is floating increasingly extreme ways to raise revenue (like selling off islands or historic relics), and the Greek population is growing more restless the longer that its sovereign debt crisis, with attendant economic woes, continues.

The largest economy in the eurozone is Germany, which also has a reasonable credit rating. It is governed by a coalition of the Christian Democrats of Angela Merkel and the historic market-oriented party the Free Democrats. Phillip Roesler, leader of the Free Democrats, made it clear that recent Greek demands for more money are impossible right now. "What the Greeks have asked for, half a year or two years, that's not doable," he said in regard to deferring budget cuts and economic reforms. He said that Greece needs to respect the bailout terms already in place. This is not the only time the German political leader has voiced frustration with Greece. In July Roesler said that the idea of a nation departing the eurozone had "lost its horror." This, however, drew criticism from Guido Weterville, the German foreign minister, who said that the bullying of Greece should stop. Merkel seemed to side with her foreign minister.

But Roesler's views seem to have found support from Wolfgang Schaeuble, the finance minister of Germany, who said on Sunday that "more time generally means more money and that quickly means a new program [of bailouts]." Chancellor Merkel, though more politic, has also stayed away from promising anything more to Greece and instead has said, "We are at a crucial moment in the fight against the debt crisis and that's why I think we should all weigh our words carefully."

The new socialist president of France, Francois Hollande, has leaned in the direction of Germany and has asked Greece to show commitment to economic reforms, and he has said that any further decisions on help for Greece will depend upon the report of debt inspectors, which should be issued in September. Without the support of Germany and France, it is impossible for Greece to survive under present conditions, yet the political fallout from more austerity in Greece could cause a political collapse.

Greece is a small nation, but the consequences of default would change the balance sheets of banks and corporations throughout Europe by compelling a devaluation of investment portfolios. What follows after that could easily be a snowball. Banks, which overnight would have lower values of assets, would not be able to lend as much money. Those companies whose assets shrink because they have investments in failing Greek bonds would have smaller profits (or greater losses).

The response of Merkel to this looming crisis is to push for even greater political integration of the European Union. This would include a constitutional change in the foundational documents of the EU. It is not clear how that will help. The strongest economies, such as Switzerland, which is not part of the EU, retain independent (and decentralized) government as their best method of preventing the economic maladies that now threaten the prosperity of the Germans and Finns.

Politics and the bargaining of votes with tax dollars is precisely the reason why Greece is in trouble now. One might note that the very strong system of state governments in Germany, which have a greater check on central government power than any other major nation in Europe, is one of the reasons why it has weathered the current crisis so well. (Switzerland and Canada, two other nations with highly decentralized governments, are doing much better than other small- and medium-sized nations).

It is also hard to see how more political integration would prevent resentment from the smaller and more responsible nations like Finland, actually smaller in population than Greece, whose political leaders are already murmuring about being tied to the decisions made largely by bigger states in Europe. It is also hard to see how further integration can do anything but aggravate the tense working arrangements of nationalities within European nations, like the Fleming and Walloon in Belgium, which not too long ago set the record for the longest period between an election and the formation of a government in a parliamentary system — with national differences a principal factor.

Finally, Europeans are very sensitive about past wars that have ravaged Europe. It is hard to imagine anything more galling to the memories of some peoples of Europe, such as the French, than to have the head of the government of Germany call for tighter central control over their nations, unless it would be for the head of their own state to agree with her.

The next few weeks will be pivotal. On September 12, the German Constitutional Court will rule on the power of the bailout, the same day that the Dutch will go to the polls for a general election during a time in which the resistance of Geert Wilders, leader of the Party for Freedom, to the proposed budget has created a crisis. Then in late September, the French will consider the new government's budget. Depending upon how September goes, the coming crisis of the eurozone could come much more quickly than most people would expect.