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Taking a lead doesn't come easily to Merkel. But perhaps she now sees Germany needs to light the way to a sustainable future

Henning Meyer
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Protesters confront riot police at Syntagma square in front of the Greek parliament. Photograph: KeystoneUSA-ZUMA/Rex Features

One cannot help but feel that the Greek tragedy is nearing some sort of endgame. The streets of Athens are burning as people try to resist yet another round of austerity medicine repeatedly prescribed by the EU/IMF and forced down their throats by the Greek government. Even though there is ample evidence that the current medication simply does not work – instead triggering huge social and economic side effects – policymakers at the IMF, the EU and the ECB are unwilling to rethink their diagnosis and cure.

The eurozone is at breaking point and Greece is trapped. The markets have long acknowledged this, as almost all European banks and even the biggest Greek private bank are radically reducing their exposure to Greek bonds. Somehow engineering an agreement to go on with the current policies and continuing to pour more money into this black hole will not resolve the crisis but make the long-term costs even worse. The Greek sovereign debt crisis will not be resolved this way. So what can we do?

In a quite unusual turn of events I think that the German government is starting to make the right noises. I have argued before that it is simply unacceptable to socialise investment losses whilst keeping profits private. Therefore I think it is absolutely right that the German finance minister Wolfgang Schäuble is pushing for an inclusion of the private sector in resolving the current crisis. Whether this means a voluntary bond swap with longer maturities or some other measure can be debated; but the principle is right. And it is about time to seriously talk about this given that the private sector is already getting out of Greek bonds and the ECB is more and more exposed – which explains its resistance to the German proposals.

An inclusion of the private sector could also help to construct a shift in the current discourse about the eurozone crisis. Spreading the burden and not just penalising the taxpayer will create more political acceptance for rescue measures. And if you combine this with being honest and straightforward about economic interdependencies – Angela Merkel rightly stated recently that the German bounce-back from recession was dependent on what happened to the eurozone – then you create the political space to change the narrative of the situation. For the future of the eurozone it is politically vital not just to react to recurring emergencies but to take over the initiative and set out a credible narrative and plan for future prosperity.

It is very unlikely that the EU, IMF and ECB stance will change by itself, so the recent signals by the German government could be interpreted as a sign that German policy is shifting and that the country starts to take its leadership role seriously (I certainly hope so). It is high time to build on the six decades of European policy tradition in Germany and take the leadership role in resolving the eurozone crisis.

The motivating force, however, can no longer be guilt for the second world war but must be a future-orientated idea of a prosperous and united Europe that can pull its weight in the emerging multi-polar world. Taking a lead does not come easily to Merkel but the alternative is very likely a disintegration of the eurozone and the European Union, which would have unpredictable longterm economic and political costs.

The political and institutional innovations that are required to create a sustainable eurozone for the long run – including new economic governance mechanisms, an investment plan for the eurozone periphery financed by eurobonds and maybe even a eurozone treasury with some common taxes – will need strong leadership from Germany or they will not happen at all.

It is of course the case that readjustments and serious reforms in countries such as Greece are necessary. But if the future you present in return for such reforms is still either a lost decade with huge internal deflation or crashing out of the eurozone with an unavoidable default on sovereign debt it is impossible to motivate people to pull up their sleeves and support reforms.

The coming week, with meetings of the EU finance ministers and heads of government, will be crucial for the future of the eurozone. Continuing to agree last-minute emergency measures to avoid the immediate collapse of a eurozone country is unlikely to create financial trust. And it is even less likely to create the required political trust to effectively tackle the crisis at its root. The EU heads of government and above all Merkel need to take over the agenda and set out a credible narrative for a sustainable and prosperous eurozone or face the inevitable consequences.