LESSONS FROM HISTORY? GERMAN ECONOMIC EXPERIENCES AND THE CRISIS OF THE EURO

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It has been a great, and unexpected, honor to be awarded the Helmut Schmidt Prize in German-American economic history. While I have been concerned with German economic performance at many points in my scholarship — whether the economics of the hyper-inflation and reparations of the 1920s, or of the Marshall Plan and Germany, or the economic difficulties of the German Democratic Republic — I have dedicated no single book to the German economy as such. In effect, German economic history — in truth, the history of Germany’s political economy more than of its enterprises — has been a recurrent theme that I have been unable to escape. So much of German public life has followed from economic alternatives and contestation that I have simply found it hard not to study these issues. In any case, I am immensely thankful to the committee that believed my forays were worthy of this prize, proud to be honored with an award named after one of postwar Germany’s most intelligent leaders, and grateful, too, for the generous laudatio prepared by Volker Berghahn, an earlier winner and a longtime colleague.

I.

The receipt of the Helmut Schmidt award comes with the assignment and the opportunity of preparing a suitable address. It would have seemed perverse, I believe, not to use the occasion to reflect on what economic and financial history can teach us about the crisis that has simmered before us over the past few months — most notably that of Europe’s great experiment in common currency, the Euro. At the time I delivered the lecture that follows (December 8, 2011), events seemed at a decisive juncture: Chancellor Merkel and President Sarkozy — this new duo dubbed Merkozy — had agreed on a common policy for averting Greek sovereign debt default and requiring a renewed European Union commitment to debt-reduction guidelines and enforcement. Since then, British objections to a common policy led to a new fiscal compact in early March 2012 that required more stringent budgetary policies by signatories, but established a larger “firewall” provision. The new governor of the European Central Bank (ECB), Mario Draghi,
has extended very large loans at very low interest to European private banks in the hope that they would re-subscribe to the sovereign debt rollover that the ECB itself was not allowed to purchase. So far so good, but he cannot compel the banks to act as a conduit for ECB liquidity. And clearly some of his German board members, especially Jens Weidman, have sharply criticized his policy. Most recently the Greek parliament has passed stricter austerity measures and got bondholder representatives to agree to a debt exchange that entailed over a 50 percent write-off of nominal value in their bond holdings. Whether, as of this writing, the Greek drama (or others in the Eurozone) is over, remains far from certain.

We have all followed, before and after my own comment, this serial drama reminiscent of the “Perils of Pauline” in the early cinema, and only a foolhardy prophet would say the crisis has run its course. Unless the European economies resume significant GDP growth, the new fiscal compact will become simply unenforceable. Spain has already said it cannot comply at this point. Countries can perhaps control the numerator of the debt-to-GDP ratio assuming they can stop their ears from cries of real hardship among those of their citizens who bear the costs of a crisis for which they had little responsibility. (Among all the concerns for moral hazard, one might think about immoral hazard or financial “collateral damage” as well.) But few nations can control the denominator of this ratio. Whatever supposedly automatic sanctions the new fiscal compact decrees they can be imposed only if European economic growth can be stabilized. A recession or depression will quickly transform the new so-called Golden Rule into what Barry Eichengreen termed, in his great account of interwar difficulties, Golden Fetters.

I am not an economist and not a policy maker, neither am I a resident of the European Union or the Eurozone. But to a significant degree we are all hostage to Europe’s fortunes: the BRICS (Brazil, Russia, India, China), the emerging economies, and ultimately, if not yet, the United States. Focused on the day-to-day, it is easy to forget that the crisis of the Euro is part of the more general economic and financial difficulty that has gripped the United States and Europe since 2008. It may be part of a more general crisis of capitalism. It is certainly part of the longer-term passage of global economic ascendancy from Europe and North America, ultimately to the benefit of other continents. The United States has played a relatively passive role in the Euro crisis but clearly was a major actor in helping unleash the policies of
reckless lending, and of the proliferation of flimsy financial wagers that proved so contagious. A decade and half ago, I tried to describe what was apparently the terminal crisis of state socialism in the German Democratic Republic. I would rather not have to write a similar autopsy for the system of markets and private decision making that then seemed to triumph so strongly. But I retain enough of a dialectic sensibility to believe that the very sources of vigor and strength in one period can become vulnerabilities in the next.

The great sociological and political as well as purely economic question that arises from the last decade — and I would argue ever since the 1980s — is whether we can turn over the enormous power to expand credit to private actors (not just to elected politicians) without fictitious and disastrous inflation of financial assets. The question has been repeatedly asked, by Charles Kindleberger and Hyman Minsky, and most recently perhaps in Carmine Reinhardt and Kenneth Rogoff’s book *This Time is Different*. Faced with the persistent inflation of the 1970s, earlier critics had similarly feared that the “moral basis of capitalism” — that is, its once Weberian or Smithian instincts for saving and parsimony — had eroded. But they looked mostly at the wage and welfare sector and they feared class entitlements and consumerism and the spinelessness of democratic politicians in promising what once was called “jam today and jam tomorrow.” Certainly there are many political candidates and leaders who raise the same charges today; they claim we cannot afford to generalize health care and pensions. But I believe that responsibility must be attributed not just to elected representatives, or to greedy unions, or to supposedly irresponsible borrowers, but to those supposedly in charge of society’s savings — private wealth managers as well as public officials — for having behaved recklessly and shortsightedly. We have lived through an orgy of credit creation, not by public agencies alone, but by banks as well. This took place under governments of the left as well as the right.

In any case, economic historians of the future will have much anguish to sift through, and given the division between left and right that is eternal in human political society they will come up with different diagnoses. For the nature of economic and financial history is such that it can never reach positions of greater non-partisan certainty than economic policy itself. This does not mean that divergent historical analyses are equally correct or that the truth must always lie in between. Neither do contested narratives mean that there are no lessons
from history. Rather history alerts us to the range of choices and of solutions that we can contemplate. If studied correctly, it teaches not a false simplicity but the true complexity of events. It suggests how policy options can produce perverse and unanticipated effects; it provides that mood music of a complex past which should alert us to how devilishly complicated the present is.

II.

It is in that spirit, not of resolving choices, but revealing some implications they present, that I want to re-examine very briefly some twentieth-century experiences that were important for Germany and which cast light, I believe, on current choices for that country and the rest of us as well. I will turn first to the great German inflation after World War I and the deflation of the early 1930s; second, to the protracted and bitter conflict over German reparations that fell between these economic catastrophes; and third, to the post-World War II era of economic privation and recovery during the Marshall Plan. In different ways each of these wrenching episodes elucidates the crisis of the Euro today and Germany’s choices in that crisis.

What can the catastrophic German inflation that followed World War I teach us? Inflation is the rise in general price levels that occurs when societies realize that they have created claims on present and future output that exceed what they can actually produce. In another form we call these claims debt. Let’s be clear about the cliché of living beyond one’s means. It’s not possible for a society to live beyond its means unless it gets subsidies from abroad. No closed society of economic actors can really consume more than it is willing or able to produce or has already produced — the goods and perhaps labor, in that case, are simply not there to be had. It is, rather, the intention to spend more — expressed, say, in greater purchases of goods in the private sector, including houses, or in the approval of consistently deficitary budgets, or alternatively in the intention to devote less lifetime labor to the acquisition of a given standard of living — that results in inflation. Debt — private and public — expresses the willingness to call on those within a society who have accumulated savings or to tap foreign sources to pay for current consumption, including pensions and medical care, or to pay for durable goods, including housing, industrial plant, and infrastructure, or for military goods and labor. What is too easily forgotten, however, is that debt accumulated to augment the stock of productive resources will
usually generate the future income to pay itself off; debt incurred for consumption or leisure cannot do so — although it is not always unambiguous which expenditures are tantamount to capital formation and which are not. Health and education and even housing can be construed as social capital and not just current expenditure.

Debt becomes a very easy recourse when a society suddenly adds military expenses to its normal civilian ones without cutting back equivalently on the latter, as was the case most spectacularly in the First World War. Like every one of the major combatants in the First World War, Germany mobilized most of its resources (including labor resources that it expanded and made subject to compulsion) by claiming that far less would have to be surrendered in terms of the society’s purchasing power, present and future, than was the case. The state, with the collusion of the Central Bank, printed the money it needed to commandeer perhaps up to 40 percent or more of GDP. The society thus devoted roughly half its labor and production efforts to goods and services useful only for fighting its adversaries. By refusing to drastically shift apparent (and I underline apparent) purchasing power from its citizens and businesses, it temporarily disguised the levies. Other societies did the same; the latest research suggests that Germany was not really much more improvident than even Britain and certainly France or Italy. But defeat made it impossible to disguise further, and the Germans spent the next four years trying to figure out who among them should really bear the silent confiscations that had taken place.

If debt is mobilized from within a society, repayment can be avoided by making the real cost of goods and services higher, that is rationing through inflation, even as the real value of monetary assets — money, bonds, insurance payments — are all reduced. The postwar German political system was sufficiently paralyzed between left and right so that it essentially acquiesced in the write-off of all domestic monetary assets as well as letting the prices of consumer goods rise astronomically. And while Germans could not borrow as much from abroad as could the Allies during the war, they were assigned the postwar debts known as reparations. Ironically enough, Allied reparation demands made it easier to avoid facing up to the great redistributive issues inside the country after 1918; they served as an alibi, for it seemed as if the foreign exactions were the underlying problem. But the problem originated with the war, and not merely that it had been lost, but that it had been fought.
The result was a social and political stalemate. By 1922, German Social Democrats wanted to requisition not paper savings but the returns on tangible capital assets, which in the postwar era could actually be expanded (the so-called “Erfassung der Sachwerte”), but they had no majority for such a policy by 1922. On the other hand, German workers as a group were able to enforce frequent wage adjustments and probably lost relatively less than middle-class savers and salaried employers. (It is appropriate to recall here the great work of the late Gerald Feldman, friend of so many of us, and of this German Historical Institute, who so exhaustively documented this process.) Redistribution rewarded those who understood domestic paper assets were doomed and only real estate or perhaps factories or foreign currencies and assets might save them.

The conflict over distributing the losses, of course, deeply poisoned Weimar politics, and not just during the inflation, but during the “good” years of 1924-29, when the battles to allocate the losses racked up between 1914 and 1918 were still being fought. Now, inflation in the narrow sense did not bring Hitler to power — mass unemployment and the perceived inability of democratic political leaders to overcome it contributed more directly. Neither can we be certain that this remote episode continues to determine German policy choices, as many commentators always affirm. Repeating a cliché does not necessarily make it true. The current one-sided mandate of the European Central Bank to preserve price stability arose from an interpretation of the stagflation of the 1970s, not the 1920s, nor even of the currency collapse of 1945 to 1948.

No, the real lesson of the inflation that is relevant for today is that liabilities can be disguised, sometimes even as assets (as is the case in the great bubble that led up to 2008) but ultimately will be discovered and must be allocated. That process is perhaps the most painful and indeed paralyzing exercise a democratic society can carry out in peacetime; but it becomes unavoidable as long as social actors can express their preferences, whether through the paralysis of legislation — as in Weimar and perhaps the current United States — or resistance in the street, as has been attempted recently in Greece and Spain and Italy, although with less success than one might have anticipated.

Fast forward six or seven years to the onset of the Great Depression. Just as German leaders were paralyzed by political division from 1921 to 1923, so they were in dealing with mass unemployment. It used to be easy to critique the deflationary stubbornness of Chancellor
Heinrich Brüning in persisting in policies that worsened unemployment. Statesmanship was insufficient before November 1923 and in the deflationary sequence of 1931. Knut Borchardt argued with verve over a decade ago that, given international obligations under the Young Plan and a residual fear of quantitative easing from 1923, Brüning had no choice but to wager on the revival of capital inflows. Indeed, that wonderful economic historian hammered those of us who squirmed at the consequences into the ground with his inexorable logic. And indeed had Brüning tried to inflate, his policies might well have backfired. Today, the partisans of the ECB status quo can rightly argue that treaties and statutes prohibit the bank from serving as a lender of last resort to European national central banks and governments. Listening to Axel Weber or Jens Weidman, his successor at the Bundesbank and on the ECB board, I hear analogous arguments. But the historian knows the consequences of such fatalism, and I still believe that the policymaker must ask what will be the possible fateful consequences of persisting in decisions that seem so inscribed by law or even logic. Remember Bethmann Hollweg in 1914 and Brüning in 1932 — history punishes those who come too late, as Gorbachev famously told Honecker, but it also punishes those who insist on their own powerlessness.

III.

Let me turn to reparations and what we can learn from that episode. The issue was not what reparations Germany actually paid; indeed Germany paid obligations only when it could borrow from abroad so that it might defray an ongoing minimum and not sacrifice its domestic consumption. It seemed unjust that a Germany unscathed at home should escape from the economic consequences of its occupation of Belgium and France, but sometimes the effort to extract justice is economically harmful and there are painful choices between what is deemed equitable and what is feasible. (We face the same difficulties today with respect to dilemmas of moral hazard.) The reason reparation was so difficult was not that Germany was deprived of Silesian and Pomeranian territory as well as of Alsace–Lorraine. The Federal Republic became far richer on a far narrower territorial base. The real difficulty of the reparation problem was four-fold. First, from the beginning Germans across the political spectrum felt that the demands were illegitimate and extracted by simple force. Even the proponents of fulfillment such as Walther Rathenau believed that Germany’s effort to make the initial cash
payments demanded in 1921 would convince the Allies that they must seriously reduce the amounts they were demanding. The initial global sum brandished in 1921 amounted to about 132 billion marks ($33 billion) of constant 1914 value, so-called gold marks, or perhaps about 180 percent of the GNP of the later 1920s — somewhat higher than the recent pre-haircut Greek debt, and all owed externally. In fact, because the debt was to be mobilized only gradually, the burden would have been far less, as even Keynes recognized, perhaps about 80 or 90 percent of GNP.

The second problem was the so-called transfer problem — the fact that in an era when currencies were still floating (as those between the Euro zone and other currencies do), the value of the mark would continually fall. Germany might scrape together a billion marks in budget surplus, but it would take greater and greater tax effort at home to purchase the pounds, dollars, or gold for the transfer to its creditors abroad.

The third problem — debated at the time — was that even after the transfer obligation was eased under the Dawes Plan in 1924, the need to tax and raise real resources would depress economic activity and make the burden become higher in real terms each year. This is also the dilemma that Euro country members face today. Extracting the surplus needed to pay back the debt could shrink the basis from which the surplus had to be raised. The Dawes Plan minimized real payments for four years, but as that term came to an end, it was already clear — even before the Great Depression — that Germany would be unable to meet the payments that were supposed to follow.

Underlying all these difficulties was the fourth, the political dilemma. Even when a majority of German parliamentarians could agree to pay something, the Weimar political system was divided between the Social Democratic partisans of a nascent welfare state and the partisans of business, who did not want to burden industry with taxes for increasing social burdens, not to speak of the diffuse middle classes who had hoped to see their savings partially reconstituted after 1923-24 and not simply confiscated. Ultimately, these divisions could not be solved in a democratic framework. The reparation problem could only be the now proverbial can kicked down the road by private capital loans from abroad — which served as its own sort of time bomb.

The reparations dilemma has much to make us reflective. The usual lessons, I believe, are too simple and are excessively moralized —
namely that spiteful leaders at Versailles imposed an unworkable and vengeful system. Stephen Schuker and others have made vigorous cases to the contrary. My own views have varied over the decades. Some of the Allied demands and expectations were certainly justified; why should a devastated France not expect some restitution from an unscathed Germany that seemed more responsible for the costly war? There was also much to deplore in the German debate. The German Right, augmented by the rising voice of the Nazis, threatened treason trials against those who consented to the Young Plan that further attenuated the reparation burden, but kept it in existence. Still, watching last year’s American discussion of raising the debt limit makes one aware of how inflamed debt discussions can become. Reckless voices in the United States talk about jail for policymakers. Irresponsibility and catastrophe can begin at home.

Nonetheless, the effort to extract foreign payments that are seen as punitive, that cost the jobs of those who did not originate the irresponsible behavior, can also prove disastrous. Not only Greeks will see Germany as the collector of reparations if the new tightened enforcement mechanisms fail to yield economic recovery. What is important to learn is not that reparation debts were evil, but that they were politically so explosive. Reparations, conceived as a string of debt payments, seemed unfair in their premise, unworkable in their mechanism. Enforcement can have consequences that are far more adverse than surrendering or transforming them.

I am not claiming that today’s debt problem is the same as the reparations problem — we have no legacy of a terrible war and embittered national aspirations. In the 1920s, moreover, the powers who were reparation creditors of Germany were simultaneously debtors to the United States. They pleaded, and with justice, that if the United States would forgive them their debts, then but only then might they forgive their German debtors. America negotiated many of the debts downward; it accepted what in today’s language is called a haircut, perhaps of about 50 percent in real terms. But the U.S. refusal to accept any formal linkage between reparations and war debts inhibited the efforts among the Europeans to reach a solution. Ultimately at the depth of the Depression, President Hoover proposed a year’s moratorium on all international debt and interest payments. But the concession came too late to prevent the political situation inside Germany from degenerating; it also side-swiped the French who were trying to derail the proposal for an Austro-German customs union that threatened to be a prelude to Anschluss.
Greece is hardly the actor that Germany was, and Americans are no longer creditors of last resort. It is unclear whether in a depression we could be consumers of last resort; so much depends upon Asian economies these days. Still, the fact that international debt obligations are so hard to enforce, that the spill-over effects can be so powerful, and that even a rightful debt can appear to a national public as an outrageous demand is a sobering lesson.

IV.

Let us turn the situation around and examine the economic distress after World War II. Faced with the threat of Communist advances in Eastern, Central, and perhaps even Western Europe, the United States no longer insisted on its rights as a creditor nation. Neither did it, nor could it have relied on its own private sector to provide the loans needed for Europe to purchase the American goods required to sustain reconstruction. The Marshall Plan did not replace European capital formation. But the one to two percent of United States GDP that Americans provided annually for four years helped Western European countries overcome the crucial current-account bottlenecks that threatened to plunge societies, which (as Alan Milward emphasized) had started to recover, back into the same austerity measures that had led Europe downward in 1931-32. Without the Marshall Plan, each European government would have had to impose a drastic austerity program, putting ceilings on wages and rationing imports. The political consequences — so American statesmen understood, as did Europeans of the Social Democratic and Christian Democratic center — might well have radicalized politics, either to the left or to the right.

The Marshall Plan (European Recovery Program), moreover, was extended to the collective unit of the recipient countries, the Organization for European Economic Cooperation (OEEC) convoked in 1947, as well as to each national recipient by bilateral agreement. That meant that the OEEC scrutinized each country’s medium-term plans, and over the years from 1948 to 1958 worked toward the restoration of multilateral currency clearance agreements, with American credits provided as an incentive. The collective responsibility that the European Recovery Program imposed was not that of a supreme legislative agency but a genuinely collaborative agency. Insofar as the United States nudged the Europeans as a group, it did so through incentivization, not Diktat nor automatic rules. Today, of course, Europe has entered the current crisis not merely with convertibility
but a common currency and a number of collaborative agencies — the organizational structure on which to build is hugely developed. Still, it is important to recall that at a time when postwar organization was far more rudimentary, the major economic power had an interest in the stability and growth of the Western community as a whole and found it a worthwhile bargain to subsidize that trajectory.

Robert Camdessus, the former director of the International Monetary Fund, once told me, in connection with the fortieth anniversary celebrations of the Marshall Plan, that he found the American initiative so admirable because it imposed early on the idea of “conditionality,” which International Monetary Fund loans also required. But Camdessus, I believe with all due respect, was wrong. In fact, the Marshall Plan worked because at decisive moments the American funders suspended conditionality. Washington had compelled the British to adopt convertibility of the pound and thus monetary rigor in 1947 with disastrous consequences. Over the next few years, in effect, Washington authorities (who had not shackled themselves to parliamentary or congressional approval except for yearly appropriations) accepted that the French might postpone balancing their budget and that the British would not be compelled to renounce their residual imperial position and liquidate the special privileges that the sterling zone provided them.

The Marshall Plan was political both in its premises and its consequences. It helped nurture not formal “great coalitions” but de facto centrist politics that broad swathes of the European working class as well as entrepreneurs could support. And in the United States it rested on a bipartisan coalition, with the internationalist wing of the Republican Party cooperating with the Democratic administration. Sadly, that prerequisite seems far from being available in today’s Washington, but it must not fail in Europe. Indeed in Germany such agreement lies at hand: Chancellor Merkel’s real allies are the two leaders of the SPD, Peer Steinbrück and Frank Steinmeier; and her potential foot-draggers are her FDP and CSU coalition partners.

V.

Germany did not like reparations but did appreciate the Marshall Plan; and both with good reasons, which should offer reflection today. In effect, American insistence on the sanctity of debts coupled with Chancellor Brüning’s nationalistic deflationary zeal had helped plunge Europe into the depths of depression and political radicalization. American suspension of conditionality and its funding the debts
of Europe after World War II let the West escape a renewed spiral into incalculable poverty and turmoil. The big bazooka was not accompanied by a big stick, but by joint resolve.

Do these episodes have a lesson for today? Of course, there are great differences. The Euro crisis arises within a framework that does not allow single countries to devalue, any more than the hard-pressed state of California can devalue. But California’s weaknesses do not immediately have an impact on the refunding of the federal debt; federal taxes are collected at the same level in California as in Texas or New York; its social security system functions as mandated by Washington; and California still has Hollywood and Silicon Valley. Conversely, as Martin Wolff has argued, within the Eurozone cross-border current-account flows still play a large role; there are exporters and importers, and as he has insisted, not every country can have a positive current account balance. Let’s face it, like it or not, the Eurozone is a transfer union, just as Germany is an immigrant country. But the transfers are not just at Germany’s cost and to the Mediterranean country’s benefit, for the transfers are the counterparts of the fantastic export performance that Germany has enjoyed.

German spokesmen for the Bundesbank have stressed the sanctity of the treaties that created the Euro and have pushed through what they envisage as an even more sacrosanct treaty. Others might draw different conclusions, but if this historian can venture some indirect policy advice, it would be to start by decoupling the short term from the long term, the way the 1924 Dawes Plan did, and the way U.S. policies worked after World War II. Sometimes there is no better immediate alternative than kicking the can down the road.

We know that in the long run the public debt of Greece, Italy, Spain, and the United States must be restored to sustainable levels if Western economic life is to rely on private sources of capital and not a backdoor approach to state socialism. But such reduction of debt can follow only as economic growth resumes. Remember that the stabilization programs in East Asia and Latin America during past debt crises caused massive misery and hardship — but the misery took place often in agricultural milieus and among groups whose normal penury we in the West were accustomed to taking for granted. The same pain inflicted in the cities of Europe will have unacceptable political consequences. Whether Greece remains in the Eurozone or not — I wager that it will — Germany will not be able to stand by as misery and hardship accumulate at its doorstep.
The tone of continuing negotiations is as crucial perhaps as the provisions themselves. Perched on the possible edge of recession — faced as we have been with repeated downward revisions of European growth estimates during the last three years — single-minded insistence on debt repayment and redemption will lead to catastrophic results. Deploying the rhetoric of the Fass ohne Boden is understandable, but unhelpful. In the really important areas of life, such as family needs, we realize that solidarity cannot be gainsaid. Should the Euro project enjoy that status? I would hope so, less perhaps for its own sake (computers after all can instantly calculate exchange rates) than its role in the advance of European union as a whole. The European project, I believe, redeemed much of European history in the second half of the twentieth century. To object that there is no European demos is merely to assert one form of sentimentality over another: demoi take shape around institutions, especially institutions that summon citizens to decide among meaningful electoral alternatives.

This suggests that Europeans must approach their institutions with a more encompassing perspective. Most immediately in institutional terms it means, I think, that the ECB must find a way to reconcile its long-term mission with short-term funding of national debt. Eurobonds are another ligament, although they must wait at least until after national elections. Ultimately, this particular observer would like to see the European parliament given budgetary control over a far larger share of Europe’s GDP than is currently the case — perhaps “entitlement” expenditures, which arouse so much passion, could be “federalized” at the Brussels/Strasbourg level. In the long run, Keynes quipped, we are all dead. In fact, in the long term we can survive — it is the short term that seems so menacing. The leaders of Europe — Germany its economic locomotive, France and Benelux and Italy still the indispensable partners for moral consensus — perhaps need a de facto moratorium on enforcement and a long-term sliding scale of debt-reduction targets keyed less to national income than to the trends of economic growth, positive as well as negative; and perhaps a calculation of debt burdens that separates what is owed for current consumption from what is owed for social capital and infrastructure. The irony is that the more vigorous the growth, the more easily debt can be accommodated. My personal plea would be to bring the bazooka into play and not abolish the big stick, but make its timing more conditional on recovery. If the institutions show the way, the markets will follow.
Winston Churchill once said, trust America to do the right thing after it has tried all the alternatives. I feel somewhat the same about Angela Merkel: trust her to do the right thing, but, to cite Günter Grass’s title, *Im Krebsgang*. In this crisis all eyes are on Germany. It saddens me that the United States is hardly in control of its own public finances — not because it spends too much, but because its political leaders have been unwilling or unable to make the case as they once did that a great nation rests on public goods and that the well-off of our society have the most at stake. In Germany Helmut Schmidt, whose name honors this award, would have made that case; and I believe that Chancellor Merkel in her matter-of-fact way understands it as well, as Konrad Adenauer and Willi Brandt, Helmut Kohl and Gerhard Schröder did earlier. Not all commanded soaring oratory, but they each raised their country to a recognition of its highest interests, often against the temptations, as the Polish foreign minister said last fall, not of hegemony, but parochialism. In the over six decades since 1948, West Germany, then the Federal Republic has combined a generous welfare state with the capacity, first, to integrate perhaps ten million refugees; then, to provide reparations to Israel and the Jewish communities as well as to other nations, to absorb millions of migrant worker immigrants and political asylum seekers; to provide development aid in what we once called the Third World; to cushion the gradual retirement of the EU’s agricultural workers, then its own industrial laborers without catastrophic political protest movements; and to spend perhaps a trillion Euro on reequipping the new Bundesländer. A decade ago it made its labor market more flexible and its welfare state less of an open-ended claim on national resources. It is clearly the economic leader of Europe. For Europe today, Germany is the indispensable nation, and it is fervently to be hoped that it will understand that this role requires generosity and imagination.

Bibliographic Note

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