

Wolfgang Schäuble: “Europe will only work if the rules are the same for smaller and bigger member states”

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*Germany has had a central role in shaping the policies that have been implemented to address the Eurozone crisis and the persistent economic problems faced by European countries in its aftermath. Following a recent lecture at LSE, Germany's finance minister, **Wolfgang Schäuble**, took questions from LSE staff and students on the need for rules to be applied consistently across all states, the impact of austerity policies on the European economy, and the UK's upcoming referendum on EU membership.*



You have stated previously that countries must stick to the rules within the Eurozone. Thinking back to 2002-3 and to the Maastricht criteria, under what circumstances should rules be changed? (Bernard Casey)

The rules in Europe ought to be the same for the smaller member states and for the bigger member states, and it was a major mistake that in 2002-3 the rules were broken by Germany and France. That is the beginning of the story. If the two biggest member states of the EU do not stick to the rules, you must not be surprised if the others follow suit, therefore I totally agree.

But the rules in Europe need to be implemented through the judgement of the Commission, not by the judgement of member states. I doubt – and a lot of my colleagues doubt – that the implementation of rules by the Commission in the last couple of years has been the same in the case of bigger and of smaller member states. The treatment of France and of Portugal, to make an example, has not been seen by everyone as the same. Europe will only work if the rules are the same for smaller and bigger member states: those are European values.

So Germany should have been more disciplined?

I was a member of the opposition at that time! Everyone needs to draw lessons. But I will never say that the German government and myself have always been sticking to the rules. Any human being should be careful with saying ‘Oh, I am the only one who is always sticking to the rules’. But you can try to learn lessons.

You are known for your positions in favour of austerity and against the use of fiscal stimulus. What is the evidence which would convince you that you are pursuing the wrong path? (Kevin Featherstone)

If you look at the economies in the Eurozone, you can't find a relationship between higher debt being linked with higher growth. It is quite the opposite. It is a matter of fact. In the G20 and IMF meetings I attended over the past six years, we have agreed that for sustainable growth it is decisive to have competitiveness, structural reforms, investment, and sustainable financing. We have agreed that the room for monetary policy is very limited over the last couple of years, and even the room for fiscal space is more limited than it used to be, because we have a level of public indebtedness which is higher than it was at the end of the Second World War, therefore the room for additional indebtedness is very limited.

This is one reason. And it is a growing mood even in economics that the old way to stimulate growth will not work. Most economists only ever remember the first half of Keynes' theory – additional spending in times of crisis – but they forget that you need to reduce your spending when you have surpluses. Only having 50 per cent of Keynes doesn't work on its own and that is the problem.

In my view, what you underestimate is that economics is a social science: it is combined with human beings,

therefore it is not strictly rational. It is not mathematics, it is psychology. Therefore, I am much more in favour of the economy of behaviour. I believe that the element of moral hazard is very important. Maybe you are right for the United States, but given the construction of the monetary union, the moral hazard dimension is huge.

And in substance some member states of the Eurozone suffered seriously by ensuring for some years low interest rates they had never experienced before, and they forget to do what they urgently had to do. That is the key problem in the European economy: it is not a matter of whether it is a fiscal space or more common fiscal responsibility, it's a matter of not giving too many of the wrong kinds of incentives. That is because, if there is a conflict between short term and long term issues, political bodies – whether it is government or the parliament – always give precedence to the short term issues. That makes many of Europe's economies very weak and that is a big problem.



In regard to the refugee crisis, how do you think that we can restore solidarity in the EU?

I think that we are doing it. Europe always moves very slowly, that is sometimes very boring, but you will see at the next meetings of the heads of state of the EU if there has been some progress. Even the European Commission has said that it has taken too much time.

I had a discussion with my Greek colleague Euclid Tsakalotos a few weeks ago and I told him that if Germany would take a decision which is asked by a lot of our citizens in Germany, and by a lot of our neighbours, two days later Greece would be a failed state, and thus we would not do it. Not only for Greece, but in the interest of Europe, because Europe needs to defend itself and its values.

Secondly, of course even with all the values in Europe, there is the nature of human beings and of human society. We cannot accommodate seven billion people in Europe and we cannot take all suffering people. But that does not mean that you must not save those who you can save. In this we have to find the right balance.

Therefore the major issue to get more solidarity is, in my understanding, that we must engage ourselves more forcefully in our neighbourhood, and spend more money addressing the problem. And if I spend more money in the region I cannot spend more money in Germany.

Do you believe that Grexit is still on the table? Do you still think that Greece would be better off outside of the Eurozone?

After difficult negotiations, we have achieved a deal with Greece, and we stick to this. Therefore Grexit is not on the table, but it is up to Greece to stick to what was agreed – and we need to stick to what was agreed as well. And of course there is a new situation now, the refugee crisis, and therefore Greece needs additional solidarity and we are granting this to them. But this does not mean that Greece should not work to regain competitiveness. That is a must, but this is also what the government is doing – or at least says it is doing.

In terms of the UK's referendum on EU membership, would you say to Boris Johnson that there is only one deal that the UK can negotiate? If the British vote in favour of Brexit, there is no other deal on offer? (Kevin Featherstone)

The UK is going for a referendum. Since the UK is going to vote in a referendum, I think the UK should take a decision. And not say: “Oh, we do not really want to decide”. No, that is not fair. A deal is a deal and out is out, and I hope that you will take the right decision.

The questions in this article were asked by a number of different individuals attending the event, but names have been indicated for LSE staff members. A recording of the full lecture is available [here](#).

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Note: This article gives the views of the interviewee, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.

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About the interviewee

Wolfgang Schäuble

Wolfgang Schäuble is a German politician of the Christian Democratic Union (CDU) and has been Germany's Federal Minister of Finance since 2009.

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