Germany has declared war on the eurozone

The Bundesbank is strong-arming its neighbours just as it did when Britain was forced out of the ERM in 1992

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If Clausewitz is right that "war is the continuation of policy by other means", then Germany is again at war with Europe — at least in the sense that German policy is trying to achieve in Europe the characteristic objectives of war — the redrawing of international boundaries and the subjugation of foreign peoples.

Likening German policy to warfare is controversial, to put it mildly, so let me begin by describing how events in Europe have unfolded in the past few months. Angela Merkel, the German Chancellor, has consistently claimed that Germany will "do whatever it takes" to save the euro. But what she has actually done is consistently to refuse to take any of the necessary action. She has also prevented European institutions from taking such actions, even when the German veto had no legal or moral justification.

As the euro crisis has intensified and spread from clearly bankrupt countries such as Greece to Spain, Italy and now France, it has been acknowledged, at least outside Germany, that three actions are absolutely essential to resolve the crisis and to put the European economy back on its feet.

The first would be to restore financial stability by huge purchases of government bonds by the European Central Bank. To be successful, these would have to be on a scale at least comparable with the "quantitative easing" undertaken in the past two years by the US Federal Reserve, the Bank of England, the Bank of Japan and the Swiss National Bank.

The second step would be to restore long-term solvency by issuing new bonds, jointly guaranteed by the entire eurozone, which would replace some of the government debt run up in countries such as Greece and Portugal.

The third step would be to improve and co-ordinate economic policy in all eurozone nations to restore economic growth, ensure that the restructured

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debts can be serviced and that another crisis does not occur.

By blocking the first two, Germany has guaranteed the failure of the third. Why then has Ms Merkel so blatantly contradicted her own stated policy?

The initial judgment was that she did not understand economics, or was too beholden to longstanding monetary traditions, or was simply incompetent. But as the crisis has intensified, Ms Merkel has become ever more stubborn in her refusal to do what is obviously needed to save the euro, as David Cameron discovered last week. So a different interpretation of her behaviour must now be considered. Is it possible that, far from trying to save the euro, Germany actually wants to break it up?

A clear historical precedent is the sabotage of the European exchange-rate mechanism (ERM) in 1992. And the institution that now seems to be working to destroy the euro is the same one that organised the ERM break-up — the Bundesbank.

The Bundesbank, as an institution, has always opposed European monetary unification, unless it meant the imposition of German economic philosophy on other countries. This monetary imperialism was summed up by a remark in the *Times* obituary yesterday of Richard Medley, the famed hedge fund consultant who, as George Soros's political consultant, was at the centre of the ERM break-up.

Helmut Schlesinger, the Bundesbank president in 1992, was asked why he disliked the precursor of the euro, called the Ecu (European Currency Unit). He replied: "I have nothing against the Ecu apart from its name — I think it should be called the deutschemark."

In 1992 the Bundesbank encouraged Mr Soros and other speculators to sell sterling and the Italian lira to break up the ERM. But the Bundesbank also discreetly hinted that the French franc should be supported as France was a German ally. As Mr Soros said later in an interview, also quoted in the Medley obituary: "I felt safe betting with the Bundesbank. The Bundesbank clearly wanted the pound and lira devalued, but it was prepared to defend the French franc. I did better than some others by sticking to the Bundesbank's side."

Today the Bundesbank's role in destabilising the European financial system is much more open than it was 19 years ago. Axel Weber, the former Bundesbank President, and Jürgen Stark, the former Vice-President who went on to join the ECB, both voted against ECB support for Greece in

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May 2010 and then publicly denounced these measures to the German media, in an almost unprecedented breach of central banking protocol.

Last summer, when the ECB decided to extend its half-hearted support to Spain and Italy, Mr Weber and Mr Stark both resigned in protest — and launched openly political attacks on their own Government's European policies. A few weeks later a story emerged in the *Financial Times* that the electronics giant Siemens had become nervous about the French banking system and had withdrawn its cash balances from Société Générale to deposit them, "for safety", at the ECB. It is by no means impossible that this was leaked by the Bundesbank.

Today, the Bundesbank is at the forefront of a campaign to persuade the German public and the German Government that ECB bond purchases and quantitative easing are illegal under European law. In truth, EU treaties specifically allow the ECB to buy bonds, as long as it does not do so directly from governments. And EU law says nothing at all about quantitative easing. What the Bundesbank believes, however, is that European law *should* have made bond purchases and expansionary monetary policy illegal — and as other European countries failed to write these laws into the EU's treaties they will simply have to be imposed by Germany through financial force.

In short, the Bundesbank policy on the euro crisis is to present the other countries of Europe with a stark ultimatum: either they accept German economic directives, German monetary theories, German financial practices and even governments imposed by Germany as part of a draconian regime to deal with national insolvency. Or they must face financial chaos and expulsion from the eurozone, under a new exclusion procedure now demanded for nations that refuse to submit to German rules.