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Deutsche Bank's Ackermann on Europe, Bailouts, and a 'New Vision'

By Barbara A. Rehm
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WASHINGTON — If you think the implosion of the European Union is a matter of when, not if, listen to Josef Ackermann, who stepped down late last week as the chief executive officer of Deutsche Bank.

“I can assure you if it comes to the worst, before the Eurozone collapses everything will be done to bail the Eurozone out,” Ackermann told a gathering of the Atlantic Council Monday night. “Destruction is much more expensive than further construction. The demolition of the Eurozone would create chaos in Europe and probably in many other parts of the world.”

Perhaps no other banker has played as large a role in holding the Eurozone together. As the head of Germany’s largest bank for the last 10 years and the chairman of the Institute of International Finance, Ackermann has had the ear of political leaders throughout Europe.

As he fielded questions for a little over an hour, Ackermann tried to pull the debate away from pressing questions such as whether Greece will exit the EU to focus on broader, more provocative concerns.

Ackermann argued that Europe needs a new vision for itself, and that without one, it risks being run over by larger rivals.

“A fragmented Europe has no way for self-determination. We will have to accept what the United States, China, India, Brazil and other countries will finally define for us,” Ackermann said. “This cannot be the future of our children. Only a united Europe can negotiate with all these countries at a high level.”

Political leaders, he said, must start to grapple with these choices.

“We have to find a new vision. A new raison d’etre. And I think self-determination is one aspect that we should work on. We need something that people start rallying more behind Europe, and then start working on improving the governance of Europe.”

Ackermann has even found a silver lining to the crisis.

"If we manage it successfully, it may be the first time that Europe jointly solves a problem and can talk about it with some pride," he said. "We should really not miss that opportunity."

Referring to criticism of Germany, which has gained a reputation as the EU's task master, Ackerman said such complaints create "resentments and resentments are not very constructive. What we need is more social cohesion in order to create this kind of European spirit, and I think that is one of the major challenges that go beyond the financial challenges."

Ackermann did not detail his vision for a more unified Europe, choosing instead to speak in general terms.

"When we started the monetary union we knew that this was not sufficient for very long," he said. "But the first 10 years were so successful that we forgot a little bit to really push for the next steps, namely much more integration, much more coordination and finally some sort of fiscal union or political union."

Narrowing in on the financial system, Ackermann said he has long supported a common financial services regulator and a single set of standards all companies would follow, regardless where they are headquartered. He also favors a European-wide deposit insurance system.

The most important step Europe can take right now, Ackermann said, is to complete the establishment of the European Stability Mechanism, which is due to take the place of the European Financial Stability Facility as soon as enough EU members ratify it.

Once that's set, the EU will have a "firewall" of roughly 1 trillion euros, he said.

Ackermann mentioned the "impatience I hear every minute in the United States" for European leaders to do more, faster. Like Germany's Chancellor Angela Merkel, Ackermann thinks incremental progress is the better approach. He specifically rejected a Tarp-like program for Europe, saying only banks that need government capital should take it.

Speaking of Merkel, Ackermann said, "It is important to understand she is not a person who likes to be the front-runner. She thinks you have to decide when you really have to decide because it's getting close to an emergency case."

Ackermann argued that the situation in Europe is no where near as dire as some experts, like Roger Altman writing in Monday's *Washington Post*, are claiming.

"There is no immediate concern about the collapse of the Euro system," said Ackermann, who has returned to his native Switzerland as chairman of Zurich Insurance Group. "Of course this is buying time, and we have to use it to improve our set-up including our governance."

Ackermann's worst-case scenario looks like this: Greece rejects its austerity plan and forces the question of whether it can remain in the European Union. The 16 other countries, might give Greece some more time but they would hold the country to its promises to get government spending under control. At that point, Greece might decide to exit the Union.

"Then you would have a very difficult situation, but manageable, absolutely manageable," Ackermann said.

The next question is what if the panic spreads. Ackermann said that's why the Stability Mechanism is so important. The EFSF has about 250 billion Euros left and the new fund will have 500 billion Euros. The IMF would likely contribute another 250 billion Euros.

"Altogether we will have 1 trillion Euros, which in my view is by far sufficient," he said. To recapitalize Spain's banks, he said, "we are talking about maybe 50 billion Euros. It is not a big number."

Ackermann admitted there is never going to be enough rescue money to cover widespread bank runs. But if depositors panic, then "there is no other option than to give a full guarantee as France and Germany and other countries did after the Lehman collapse."

By saying a Greek exit would be managable, Ackermann was not discounting how disruptive the loss of any EU member would be.

Spillover effects into Spain, Italy and Portugal "would be very, very dangerous."

He ended where he started, saying "We have to do everything to maintain the Euro zone as it is."