As she aims for a third term as Germany’s chancellor, Angela Merkel is shifting her stance, trying to balance domestic concerns and rising European resentment at austerity.

Merkel’s dilemma

BY NOAH BARKIN
At a news conference in Berlin last month Angela Merkel departed from script, hinting at a new, softer stance towards Europe’s recession-hit southern states.

“Fiscal policy is not everything,” the German chancellor told reporters gathered on the first floor of the Chancellery for a visit by Enrico Letta, the Italian premier. “We do politics for people and people want jobs.”

It was a striking moment. Ever since Europe’s debt crisis erupted over three years ago, the message from Merkel had been rather different: Countries like Greece, Portugal, Spain and Italy could only restore confidence in their economies if they adopted German-style discipline to cut their debt and deficits. Fiscal policy was everything.

That hard line boosted Merkel’s popularity at home. Nearly three in four Germans believe she is doing a good job, polls show, and she looks on track to win a third term in a September election. Only the make-up of her coalition seems in doubt.

But with just months to go until the vote, a subtle shift is taking place in Berlin. The economic woes of southern Europe, where youth unemployment in countries like Greece and Spain has risen to 60 percent, are an increasing source of concern among Merkel’s entourage. Not only is the recession-hit south beginning to weigh on Germany’s own economy, but officials see the risk that the chancellor could receive much of the blame if a hot summer leads to an explosion of social unrest.

That message was reinforced in late March when protesters in Cyprus, furious about the terms of a bailout, took to the streets and vilified the German leader as a modern-day Hitler.

“She accepts that she won’t be loved by everyone, but of course she doesn’t want to become a hate figure,” said a top aide to the chancellor, who like other officials spoke to Reuters for this story on condition of anonymity.

“Just look at youth unemployment in Spain. In the past this wasn’t our problem. Now it is something we really need to worry about. If there is violence in the streets of Madrid or political chaos in Italy, it is a huge problem for Germany.”

In short, the benefits of insisting on further austerity are diminishing and the potential costs to Germany, which spent over half a century rebuilding its reputation in Europe following the devastation of the Nazis, are rising.

For Merkel, the most powerful politician on the continent, the challenge is clear. After establishing herself as the “Mutti”, or caring mother, of Germany during the depths of the crisis, she must now transform herself into the compassionate matriarch of Europe.

“It goes down well in Germany when you say everyone else needs to do their homework, but this is not a message for Europe. Merkel needs to tell a story, to set out a vision Europe can believe in,” said Oxford historian Timothy Garton Ash.

“The window that opens after the German election is extraordinarily important. Will the government that emerges be prepared to take a new approach, to send different signals? This is the big question.”

Merkel, who declined to be interviewed for this report, has shown an amazing ability to reinvent herself over the course of her career.
After the Berlin Wall fell, the shy Protestant pastor’s daughter from the communist East morphed from physicist to politician, joining the first government of a reunified Germany under then-Chancellor Helmut Kohl. A decade later, the loyal minister known as “Kohl’s girl” turned on her mentor, flashing the ruthless streak and finely-tuned sense of timing that would vault her to the top of Germany’s conservative Christian Democratic Union (CDU).

When Merkel was elected chancellor in 2005, she surprised again, ditching the free-market principles she had trumpeted before the vote and pulling her party sharply to the left. She ended military conscription, pushed a minimum wage and, following the Fukushima disaster in Japan, dropped her long-standing support for nuclear power.

A consummate pragmatist, she has played the twists and turns of the financial crisis with the calm of a chess master, managing to keep the currency bloc intact and the German people, who were reluctant to give up their cherished deutsche mark in the first place, solidly behind the euro. Nearly two in three Germans want the single currency to stay.

But by her own admission, her strategy has been one of “small steps”. Merkel, 58, has often appeared more tactician than leader. At crucial times she has chosen delay over action.

“I don’t think she wants to go into the history books as the one who let the euro collapse because of a mistake, or because of a step that turned out to be too big or went in the wrong direction,” says Nikolaus Blome, a top columnist at Germany’s Bild newspaper who wrote a book on Merkel published earlier this year.

“It is perhaps because of this fear that she is so tactical and prone to little steps. One bad move and Germany would be blamed for leaving Europe in ruins for the third time in a century.”

Prominent German sociologist Ulrich Beck has another take. In his book “German Europe” he uses the term “Merkiavellian” to describe her leadership during the euro crisis.

Beck argues that Merkel has pursued a European policy geared solely to her domestic audience. This approach has strengthened her national power base and led to the imposition of Germany’s economic model across the bloc, fuelling resentment. By hesitating at crucial times, he says, Merkel has simultaneously advanced and concealed Germany’s rise to the position of “hegemonic power” in Europe.

“The Merkiavelli method may well gradually reach its own limits,” he writes. “The poor are becoming even poorer, the middle classes are threatened with decline, and up to now there has been no light at the end of the tunnel.”

A survey released this month by the Pew Research Center showed rising antipathy towards Merkel in southern Europe. Some 88 percent of Greeks and 57 percent of Spaniards believe she has done a bad job in managing the crisis.

The same study showed that six of eight EU countries surveyed judged Germany to be the least compassionate country in the bloc. Five of eight judged Germany the most arrogant.

This is uncomfortable territory for a country that has worked so hard to repair its image since World War Two.

**HUMBLE NORMALITY**

At home, it is a different story. The Pew survey shows 74 percent of Germans approve of the job Merkel is doing.

She is far more popular than her Social Democrat (SPD) rival for chancellor, Peer Steinbrueck, an acerbic former finance minister who has tried to paint Merkel as a hesitant, weak leader. On the campaign trail, he describes her as an airplane pilot who has lulled her passengers into a false sense of security by steering them through a storm with nary a bump.

“The problem is you simply don’t know where you’re going to land,” Steinbrueck says.
So far, the attacks haven't worked. Merkel's conservatives have a double-digit lead in the polls over the SPD, the second biggest party.

“It is not the indecisive chancellor that people appreciate,” said Martin Schulz, president of the European Parliament and himself a member of the SPD. “It is Merkel's modest demeanour, her humble normality that so many Germans like and can relate to.”

Born in Hamburg in 1954, Merkel moved with her family to East Germany as a baby when her father, Horst Kasner, was offered a job as a pastor there. She grew up in Templin, a small town north of Berlin surrounded by rolling hills and picturesque lakes.

Although her father belonged to a wing of the Protestant church that worked with, not against, the political system, the family was viewed as suspect by the communist authorities because of his religious role. “Everything was a struggle: not to attract attention, to be just a little bit better than everyone else, to get into my desired school. Nothing was easy,” she told journalist Hugo Mueller-Vogg in “My Way”, a book of interviews published in 2004.

Bodo Ihrke, who was at school with Merkel, says this experience shaped the cautious, controlled approach she still exhibits.

Merkel has admitted to being so uncomfortable with surprises as a child that she took to drawing up her Christmas wish list months in advance to avoid being caught off-guard by an unexpected gift. “I always wanted to know what was around the corner, even if that came at the expense of spontaneity,” she says in the book.

As chancellor she has impressed with her preparedness and work ethic. She jokes that she is a “sleep camel” who can go days with just a few hours of sleep as long as she gets a full night of shut-eye on the weekend. She is equally demanding of her aides.

In his memoir “Jours de Pouvoir” (Days of Power), former French minister Bruno Le Maire recalls President Nicolas Sarkozy’s horror when Merkel insisted that advisers eat breakfast with her and join her for post-mortem drinks during summits. “They suffer, her poor advisers. No question of going to sleep. It’s off to the bar!” Sarkozy quips in the book.

Though measured in public, Merkel has a wry sense of humour when at ease in a small group. She is known for her imitations of fellow leaders, like Sarkozy, Italy’s Silvio Berlusconi and Russia’s Vladimir Putin.

On a trip to Canada last August, she burst into uncontrollable giggles when recounting a story of how Greece had refused to pay for German-made submarines it had ordered, claiming they tilted to one side - a defect no one but the Greeks could detect.

At the same time, she has a distinct reserve. She continues to use the formal “Sie” with even her closest strategists, office manager Beate Baumann and media adviser Eva Christiansen. According to Blome’s book, neither Baumann nor Christiansen have ever been to the apartment opposite Berlin’s Pergamon museum that Merkel shares with her intensely-private husband, quantum chemist Joachim Sauer.

The paradoxes have turned Merkel into a source of fascination as well as a target for wild conspiracy theories. Some chancellor watchers in Berlin joke that her emblematic hand position - thumbs and fingers touching in a downward facing triangle held at belly-button level - is her way of communicating with her extraterrestrial masters.

If one day the triangle were to point up, the speculation goes, it will be a signal to the mother ship that her mission on earth is accomplished and it is time to pick her up.

Merkel's explanation is a tad less exotic: the hand position helps her to keep a good posture and speak clearly, a tip from her physical therapist sister Irene.

The big questions as she gears up for a third term are: how far is she willing to go to help the rest of Europe, and can she carry the country with her? If she does emerge victorious, much could depend on the makeup of her coalition.
Europe’s disillusion

A survey of eight European Union countries has shown increasing frustrations with national economic performance and with the EU as a whole. But there is one notable exception – Germany.

Merkel barely squeezed into office in 2005 after running on a platform of tax cuts and deregulation, and was forced to form a “grand coalition” with her SPD rivals. That partnership turned out far more harmonious than many expected.

By contrast, the centre-right coalition she formed in 2009 with the business-friendly Free Democrats (FDP), her more natural partner, has proved troublesome. The FDP has flirted with eurosceptic stances during the crisis and seen its support slide. It is now fighting to reach the 5 percent threshold required to make it into parliament.

As a result, polls suggest Merkel may end up renewing the right-left coalition of her first term after the September vote. Her conservative bloc is polling just under 40 percent, with the SPD hovering 10-12 points behind. A new anti-euro party, the “Alternative for Germany”, has struggled to gain traction and is polling just 2-3 percent.

Should Merkel win a third term, it would be her last, aides say. For a leader who has often been accused of letting the electoral calendar influence her policy, this would be new territory.

A right-left coalition could open the door to a more accommodating approach towards southern Europe. In opposition, the SPD has criticised her for not doing enough to nurture growth in the euro zone periphery and push incomes higher at home.

One of the first steps a grand coalition would likely take would be to extend the minimum wage to new sectors of the economy, a move which could help boost domestic consumption, one of the top demands of Berlin’s allies in Europe and Washington.

“Regardless of who rules Germany after September 22nd, the focus on boosting growth in Europe is only going to increase,” said Markus Kerber, managing director of the German Industry Federation (BDI) and a former finance ministry official.

A grand coalition with an overwhelming majority in the Bundestag lower house might provide Merkel with the cover she needs to make other moves, like writing off a portion of the loans that Europe has given Greece. Some debt experts say such a step is necessary if Athens is to return to the capital markets in the foreseeable future.

A new readiness to help struggling European partners is already evident, even in the hard-line bastion of the German finance ministry. This month, Minister
Wolfgang Schaeuble tacitly endorsed European Commission plans to give both France and Spain two more years to reach their budget deficit targets.

Schaeuble is also pressing ahead with bilateral initiatives to combat youth unemployment and boost lending to small and medium-sized businesses in Spain and Portugal.

ENTWINED FATES

Despite such shifts, Merkel aides play down the notion of a wholesale change in course should she win a third term.

Germany has taken a tough line on the creation of a European banking union, a project seen as vital to overcoming the restrictive lending policies of banks in southern Europe. In the run-up to the September election, Schaeuble has insisted that full union, with a central authority for winding down banks, is only possible with changes to the EU treaty.

Merkel is unlikely to drop her opposition to issuing common euro zone bonds, or “Euro bonds”, an idea popular among Germany’s partners at the height of the crisis in 2011 and 2012. It has lost its allure since the European Central Bank unveiled a bond-buying programme last year, pushing down sovereign borrowing costs.

“Euro bonds were never going to resolve this crisis,” says Gilles Moec, an economist at Deutsche Bank. Nor do experts expect a new German government to engage in the kind of aggressive monetary stimulus being pursued by Prime Minister Shinzo Abe in Japan.

While showing more compassion for countries like Greece, Spain and Portugal, Berlin may remain firm with France and Italy, countries that German officials believe must do more to reform their economies.

“Merkel remains very focused on ensuring Europe doesn’t turn into a museum,” one senior adviser said. “She is careful not to voice concern about France in public, but we’re all worried.”

Aides say she does not dwell on how she will go down in the history books. No matter what happens in September, she can always claim to have been Germany’s first woman chancellor and the first from the communist East. If she emerges victorious, she would be only the third German chancellor in the post-war era to win three terms, after Kohl and Konrad Adenauer.

But after years of leading the bloc’s response to what Merkel herself has described as the worst crisis since World War Two, her own legacy has become closely entwined with the fate of Europe itself.

In Berlin, one of the most worrying headlines from the Pew survey was a precipitous 15 point decline in support for the European project compared to a year ago. Restoring citizens’ faith in Europe at a time of recession and rising unemployment will be the biggest challenge of all.

“She is the dominant politician in Europe,” said Bruno Le Maire, the Germanophile former French Agriculture and Europe minister. “If she is re-elected she will have a major responsibility towards Europe, and she will have to spell out a vision, one that is not limited to German interests.”

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