

July 17, 2012 8:26 pm

Prepare for an even bigger U-turn from Ms Merkel

By Hans-Olaf Henkel

In agreeing to help bail out Spanish banks and enter into a virtual banking union, albeit with strings attached, Angela Merkel lost an important battle. It was not the first time. While Europe's media call her "Madame No", in reality she is more of a Neville Chamberlain than a Margaret Thatcher. This time, it is the Germans who are being blackmailed – by the French. It all started in early 2010, when Ms Merkel suggested Greece leave the eurozone. After Nicolas Sarkozy threatened her with ending the special French-German relationship, she gave in and helped to bail out Greece. That turned out to be a bailout of French banks. Since then, every time she has drawn a new line in the sand, the French have pushed her over it. When she demanded automatic sanctions against violators of the euro's financial targets, Mr Sarkozy talked her out of it at Deauville. For decades, German chancellors resisted the French idea of a European economic government, until Ms Merkel adopted it. Not long after she proclaimed a Financial Transaction Tax "counterproductive", she joined the French in their fight for it.

France can expect further concessions by Germany. While the "debt brake" (designed to stop politicians piling up debts) is now part of the German constitution, François Hollande refuses to make it part of France's, though promised by his predecessor. Such a debt brake in the second largest eurozone country would have been of fundamental importance to Germany. With Mr Hollande, the risk of France herself becoming a bailout candidate is rapidly growing. While Germany has extended the retirement age to 67, Mr Hollande has started reducing it from 62 to 60. Though France's youth unemployment rate is four times higher than Germany's, Mr Hollande has raised the minimum wage to a record level. Last year, the French budget deficit ratio was more than three times as high as Germany's. There is to be no austerity programme to speak of in France.



While Lady Thatcher always wanted her money back, Ms Merkel spends her money to save the euro. No wonder that the chief editor of Le Figaro once stated the euro was a new Treaty of Versailles, without going to war.

However, these cold facts don't match Ms Merkel's hot rhetoric. Indeed, she is all over Europe lecturing others on what to do. Spaniards should take shorter holidays, Greeks should privatise faster, Italy should cut its public sector and so on. Don't blame her for that. Is it not the duty of any creditor to oversee the behaviour of his debtors? Though politicians in the south politely note her advice and go on anyway, she manages to antagonise their citizens. Before the crisis, Germans were the most admired Europeans in Greece, today, they are the most hated. It is a

paradoxical situation: Germany bears the brunt of the bailouts, but Ms Merkel is seen as a ruthless defender of German interests, in some places as a symbol of German arrogance, righteousness and mercilessness.

Why does she do it? In reality, of course, when she lectures all of Europe, she is addressing people at home. The more Germans see her being tough with politicians from the south, the less they realise that it is they who are to pay for her euromantic policies. Before the second Greek bailout was approved, the head of her party unit in the Bundestag boasted proudly: "Europe speaks German now."

More and more Germans are discovering that Europe may speak German, but that it acts French. Since Ms Merkel's U-turn in agreeing to a special bailout arrangement for Spanish banks, the mood in her country has changed. Two hundred economists protested in an open letter to German citizens. Even the German constitutional court believes that enough is enough. In an unprecedented move, the judges publicly asked Germany's president to withhold his signature under the ESM. Should the court rule that further shifts of power to Brussels are subject to a referendum or should Finland opt to leave the euro, Ms Merkel might face her second "Fukushima".

Remember that after the tsunami hit Japan, it took Ms Merkel just a few days to abandon her energy policy and announce a departure from nuclear energy altogether. When opinion polls showed support for nuclear energy had plunged, she executed the fastest policy change in recent German history. Despite her usual European rhetoric, she didn't even consult with the French, although they were severely affected by her unilateral action. If a German referendum on Europe became one on the euro instead, she might face similar pressure. That could result in another spectacular policy U-turn, this time on the euro.

The writer is a former head of the Federation of German Industries (BDI)

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