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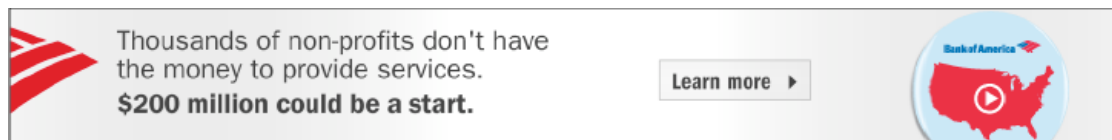
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Leaders

Germany's inscrutable chancellor

The mystery of Mrs Merkel

Jun 25th 2009

From *The Economist* print edition

Europe's canniest politician needs to be bolder about reform if she is to be seen as an historic chancellor



Reuters SHE is the first female leader of Germany and the first since the war to hail from the east. She has had the job for three-and-a-half years and looks likely to keep it after the federal election in September. Yet as Angela Merkel prepared to meet Barack Obama in Washington this week, a certain mystery still hung over her. Who is she and where might she take her country?

Mrs Merkel's character is best summed up by what she is not. Unlike other European leaders, she is neither charismatic, nor flashily

intellectual, nor domineering. Yet nobody could deny that she is a highly effective politician. She has swatted aside all challengers inside her Christian Democratic Union (CDU), despite coming from outside the party's traditional base. She has grabbed any credit going for her "grand coalition" with the Social Democratic Party (SPD), leaving her SPD rival for the chancellorship floundering. She won kudos for her presidencies of the European Union and the G8 club of rich countries in 2007. Were she to express interest in the job of EU president that will be created if the EU's Lisbon treaty is ratified this autumn, it would be given to her on a plate.

Above all, Mrs Merkel has stayed popular—more consistently so than any chancellor since Konrad Adenauer. And she has accomplished this in the teeth of Germany's worst recession since the war. GDP shrank by 7% in the year to the first quarter. Industrial production has fallen by over a fifth. Unemployment has been masked by job subsidies and make-work schemes, but it is likely to climb back above 4m next year. That Mrs Merkel is still favourite to win re-election as chancellor, whether in another grand coalition or with the liberal Free Democratic Party (FDP), is a tribute to her political skill.

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But is she a reformer?

The question is not whether Mrs Merkel will keep power, but whether she is ready to use it. She has an unusual background for a CDU leader: daughter of a Protestant pastor, raised in communist East Germany, she was a physicist before turning to politics (see [article](#)). That ought to bode well in a party that is fonder of consensus than of radical change. She seems intellectually to accept the case for greater liberalisation, smaller government and freer markets. But she has shrunk from more substantial reform, for four reasons.

First, she is cautious by temperament. The opposite of France's Nicolas Sarkozy, she is more of a methodical scientist than a mercurial revolutionary. Those who once hoped that she might be a Thatcherite reformer, a Maggie from Mecklenburg, were always going to be disappointed. Moreover, her instinctive caution was reinforced by a second factor: her experience in the 2005 election campaign. When her then economic adviser started talking of big tax cuts and radical welfare reforms, her support dropped sharply—and even after she dumped him and tacked back to the centre, she almost lost.

That led to the third and most obvious reason why Mrs Merkel has been unable to be radical: her narrow victory forced her into a grand coalition. Such an alliance operates by the lowest common denominator. Mrs Merkel has held it together, but at the cost of putting off serious talk of most further reforms to the labour market, the welfare state, health-care financing and a hugely complex tax system. The only substantive measure her government has adopted is a rise in the retirement age. Her SPD partners have even managed to roll back some of the Agenda 2010 reforms they made when they were previously in coalition with the Greens in 2003-04.

That also reflects a fourth explanation for Mrs Merkel's lack of reformist zeal, which is the mood of her country. Germany is a place built on consensus—in the workplace, in society and in politics. It is also successful. It is still (just) the world's biggest exporter; thanks to impressive discipline over wages, its companies have regained competitiveness; and its public finances are in better shape than most. The angst of a decade ago, when it seemed that Germany might be the new sick man of Europe, has largely gone. Instead, the global economic crash is seen in Germany as something that came entirely from outside because of Anglo-Saxon free-market zealots—and that has not made Germans any keener on further liberalisation.

Yet all this betrays a dangerous complacency. Even if the economic crisis was not made in Germany, it has changed the world: Germany will suffer unless it responds. The old reliance on manufacturing exports looks broken. Consumers, chary of spending, are hobbling domestic demand. Services, the backbone of all modern economies, are underdeveloped. Germany suffers from deeper weakness too. The demographic outlook is grim, threatening Germany's public finances. Education, once the envy of the world, is now mediocre—especially when it comes to universities, where the government is only just starting on reform (see [article](#)).

Admittedly, many other European countries have even bigger immediate problems than Germany. But the truth is that all of Europe needs reform: to shift away from high taxes, generous and wasteful welfare states, and, most of all, overly regulated and inflexible product and labour markets. If Mrs Merkel's Germany were to lead the way, it would be not just Europe's biggest economy but also its intellectual leader.

Smarter than Nicolas (let alone Silvio); but not Konrad

By that exalted measure, the CDU programme that Mrs Merkel will launch this weekend is likely to be disappointing. It will offer little more than promises of continuity, bolstered by the appeal of Mrs Merkel herself. That may be enough to win her re-election—Germans seem content with someone to reassure rather than inspire them. Yet Mrs Merkel ought to think about why she wants to be chancellor at all. If she does not set out plans for health-care reform, for more liberalisation of labour and product markets, for privatisation and for tax and spending cuts, she will have little chance of getting these through in office, whatever the make-up of her coalition.

Mrs Merkel will go down in history as Germany's first female leader—no mean feat. But if she wants to measure up to Adenauer or Helmut Kohl, she must persuade Germans of the case for change. And for that she needs to be far bolder.

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Jun 25th 2009 | BERLIN

From *The Economist* print edition

No other German politician comes close to matching her popularity. How does she do it? And what does her ascendancy say about her country?

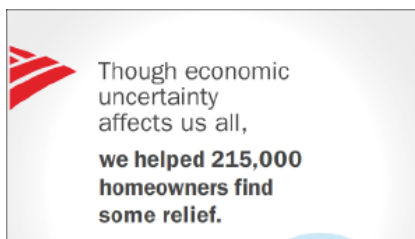


AP

WHAT oratory is to Barack Obama, the photo-opportunity is to Angela Merkel. In a red parka before a receding iceberg in Greenland; among dark-suited world leaders, one of them yet distinctive in her signature trouser-suit; sombre in black alongside Mr Obama at the Buchenwald memorial site. Through such images, the chancellor has defined herself in the eyes of her fellow Germans as a leader who holds her own in the highest councils and masters the knottiest problems. On June 25th and 26th, as *The Economist* went to press, Ms Merkel was scheduled to visit Mr Obama in Washington, which will no doubt produce another flattering harvest.

This will matter in the federal election three months later. On September 27th Ms Merkel's Christian Democratic Union (CDU) will face off against the Social Democratic Party (SPD), currently its reluctant partner in Germany's "grand coalition" government. Each hopes to jettison the other and form a coalition with a like-minded smaller partner. Frank-Walter Steinmeier, the SPD foreign minister, aspires to lead a coalition with the Greens (and, if necessary, the liberal Free Democratic Party, or FDP). The conservative CDU prefers to govern with the liberals alone. Along with its Bavarian sister party, the Christian Social Union (CSU), it will publish its campaign platform on June 29th. But the CDU's trump card is Ms Merkel herself. Supporters wear orange T-shirts with the legend "teAM Deutschland", exploiting her initials. She is the clear front-runner, and may yet succeed in forming a "bourgeois" coalition with the FDP.

On several counts, that result would be surprising. Germany's export-dependent economy, the world's fourth-largest, will contract by 6.1% this year compared with a 4.8% drop in the Eurozone overall, according to the OECD. Abroad, Ms Merkel has been blasted for doing too little about that. Germany does not comprehend the



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"importance of fiscal mobilisation" (ie, it is not spending enough), complained Japan's prime minister, Taro Aso, before a crisis summit in April. Perhaps that is because Ms Merkel herself "does not seem to understand the basics of economic policy", speculated Adam Posen of the Peterson Institute for International Economics in Washington. Mr Obama will no doubt be more polite, but he is likely to press Ms Merkel to do more in Afghanistan and to accept prisoners from Guantánamo Bay.



What foreigners denounce as cluelessness Germans see as cool-headedness. Nearly 60% are satisfied with the grand coalition, according to a recent poll by Forschungsgruppe Wahlen; 78% think Ms Merkel has done well as chancellor and 58% want her to remain in the job. Change, if it happens, is unlikely to be the sort one expects during a crisis of capitalism. The most probable alternative to the status quo is a coalition with the business-friendly FDP, which favours lower taxes, freer markets and more limited government.

Events could upset this placid scenario. Exporters and their suppliers will eventually be forced to sack workers on a large scale. By the end of 2010, predicts the OECD, the number of unemployed will rise to 5.1m from last year's average of 3.3m. On election day voters could already be in a vengeful mood. But time is running out for the chancellor's foes. Ms Merkel, who took up politics at the advanced age of 35, is likely to govern Germany for the next four years.

A woman of mystery

Though she has been in office nearly that long, she remains a puzzle. Germans find it easier to say what she is not than what she is. She is certainly not a towering chancellor in the mould of Konrad Adenauer or Helmut Kohl. "Iron lady" does not fit. Nor is she a great communicator. Pundits plead for a blood-sweat-and-tears speech on the economic crisis, but she has yet to deliver it. She does not exude maternal warmth. Ideology is not her strong point.

Her offbeat biography adds to the difficulty of pinning her down. Her election in 2005 as Germany's first female chancellor and the first from the ex-communist east had Obama-esque novelty. The daughter of a Protestant pastor who migrated east, she leads a party whose core is Catholic and whose roots are in western Germany. The fall of the Berlin Wall drew her into politics and Mr Kohl propelled her towards the top, naming her minister for women and youth in his third cabinet. Physics preceded politics in her career; its analytical habits still shape her style of governing. And yet Ms Merkel, who has been spotted doing her own shopping, connects with voters. People think of her as "the matriarch who takes care of them," says Manfred Güllner of Forsa, a polling firm. Without charisma, she contrives to shine.

She starts the electoral season with a hoard of political capital. The football World Cup, hosted by Germany in the summer of 2006, seven months after she took office, bathed the country and the chancellor in laid-back patriotism. In 2007 Germany assumed the rotating presidency of the European Union (for six months) and presided over the G8 summit of the world's biggest economies, allowing Ms Merkel to display a flair for statesmanship. For nearly three years the economy was benign. Buoyed by world trade, economic growth averaged 2.3% from 2006 to 2008, the highest rate this decade. Unemployment fell from nearly 5m in 2005 to around 3m. Before the crisis the federal government was within sight of its cherished goal of balancing its budget by 2011.

The gravest charge against Ms Merkel is that she amassed too much political capital and spent too little. She campaigned for the chancellorship (and nearly lost) as a determined reformer who would unshackle enterprise, unburden taxpayers and "govern through" all obstacles. The tax code should be simple enough to fit on a beer mat, her party declared. But she quickly adapted to the constraints of the grand coalition, forced upon her by the CDU's narrow victory. She stands accused of governing less as a leader than as a moderator, brokering compromises among the coalition's warring factions and then claiming credit for whatever emerges.

To many, the results have been disappointing. The SPD entered the grand coalition with an acute case of reformers' remorse. Under Ms Merkel's predecessor, Gerhard Schröder, the SPD and its Green allies enacted necessary but unpopular changes to welfare and labour markets collectively known as Agenda 2010, which nearly tore the SPD apart. Demoted to junior status in Ms Merkel's government, it had no desire to repeat the experience. Despite majorities (at first) in both houses of the legislature, the grand coalition passed just one big-ticket reform in the spirit of Agenda 2010, a gradual rise in the retirement age to 67.

More often, with Ms Merkel's help, it rolled back reform. It lengthened the time for paying unemployment benefits to older workers, offered pensioners relief from rising prices and introduced minimum wages in half a dozen industries, including postal and security services.

Sitting out trouble

Despite the incessant deal-making, much of Berlin's political class is feeling sour. The SPD resents Ms Merkel for stealing its clothes. The CDU's "economic wing" thinks she has pandered too much to the SPD. The CSU, struggling to stay on top in Bavaria, defies the chancellor on taxes, health policy and anything else it thinks will pacify touchy constituents. Tensions over policy have grown with the sinking of the world economy. Liberals who saw an ally in her feel let down. Ms Merkel "has not said a dumb sentence in three-and-a-half years," says Michael Eilfort of the Market Economy Foundation in Berlin. "But there seems to be no theme for which she has an enduring passion."

A reputation for wishy-washiness could cause problems. Mr Steinmeier has begun to hammer away at her leadership style, which he describes as "wait, watch, then jump on the bandwagon". Germany's consensus system of governance makes it difficult for any chancellor to impose his or her will, but Ms Merkel seems particularly disinclined. She learnt from Mr Kohl to "sit problems out", says Gerd Langguth, a political scientist who has written her biography. Unlike her mentor, though, she has "no sense of historical mission" and "no vision of society". Rather, she is a thoroughgoing pragmatist who "wants to solve today's problems in such a way that she remains in power."

Yet Ms Merkel has two traits that partly absolve her of the charge of being a soulless pragmatist. The first is what Mr Langguth calls her "fixed points", most of which are connected to Germany's relations with the rest of the world. Like many central Europeans liberated from communism, she is instinctively pro-American and warier of Russia than many mainstream German politicians (though American banks and Russian gas have tempered both instincts). She has rebuked the main powers for abusing human rights, receiving the Dalai Lama at the chancellery and calling on the United States to close Guantánamo. She can be counted on to resist attempts by fellow leaders, such as France's Nicolas Sarkozy, to split the 27-member European Union into separate clubs.

Though an easterner, Ms Merkel has embraced the western German sense of responsibility for the Holocaust and is a staunch backer of Israel. Recently she upbraided the pope for re-admitting to the Catholic fold a Holocaust-denying bishop. This offended the CDU's base of conservative Catholics, who have trouble relating to a divorced-and-remarried, childless, Protestant career woman from the east. Where Mr Kohl was "married" to the party Ms Merkel is merely "allied" to it, says Mr Langguth. But she is indispensable: with the backing of 35% of the electorate, the CDU is far less popular than she is.

Eyes on the future

Nor is Ms Merkel without vision. It is trained on the distant future, in particular on two issues whose consequences will be felt after her political career is over: climate change and demographic decline. As environment minister in the mid-1990s she helped negotiate the Kyoto protocol to reduce emissions of greenhouse gases. At her prompting, the EU committed itself to cutting emissions by 20% by 2020 (more if other developed countries agree to do so) and to supplying 20% of its energy from renewable sources by the same year. Germany is to be a model. Its own climate package mandates, among other things, a 30% improvement in buildings' energy efficiency. The national goal is to cut emissions 40% by the 2020 deadline.

The second worry that underlies Ms Merkel's policies is population decline. Within 30 years the proportion of Germans older than 65 will rise from a fifth to a third, and the population will shrink by a tenth. The younger generation will look different. In big cities today nearly half the children under 15 are immigrants or their children and grandchildren. In general, they are poorer, worse educated and more likely to be unemployed than non-immigrants. Germany needs more workers and better brains.



Ms Merkel has made a start. She appointed as family minister a glamorous mother of seven, Ursula von der Leyen, who introduced "parents' pay", a 14-month stipend for parents of newborn children linked to their salaries, encouraging middle-class women especially to combine family and career. To bolster the woefully underdeveloped day-care system, a new law promises to provide enough places for 35% of children aged three or less by 2013.

Ms Merkel's campaign to turn Germany into an "education republic" has made less progress, partly because primary and secondary education is the province of the states. But her government recently approved €18 billion (\$25 billion) of extra funding for research and universities, a noteworthy promise at a time of spiralling debt (see article). It produced a €750m "national integration plan" to promote jobs and education for minorities, for example by expanding compulsory German-language and culture courses.

Mrs von der Leyen says her boss has modernised her traditionalist party as well as the country. Thanks to her, "We've gone from saying 'We're not an immigration country' to accepting that we are one." In the CDU day care is "no longer a taboo. Without Ms Merkel that would have been unthinkable," she says. The chancellor sees herself, one suspects, as a latter-day *philosophe*, who seeks cures for society's ills in reason and science.

Balancing the bail-outs

Her achievements in such areas lag behind her ambitions. Universities remain under-funded. Integration has progressed slowly. The government offended Turks by changing the immigration law to require migrants from poor countries to pass a language test before joining their spouses in Germany. Last year the number of immigrants obtaining German citizenship fell to its lowest level since unification. When far-sightedness crumples into ordinary opportunism, Ms Merkel disappoints. Saying climate protection cannot come at the expense of German jobs, she pushed for looser emissions standards for carmakers, putting the EU's overall emissions targets in jeopardy, says Jeroen Verhoeven of Friends of the Earth in Brussels. To Hans Joachim Schellnhuber, head of the Potsdam Institute for Climate Impact Research, who advises her on climate issues, these are merely tactical compromises. Though willing to take detours, Ms Merkel "never loses sight of where she wants to go."

If she wins re-election, she will have a chance to prove him right. But first she must ensure that voters do not punish her for a recession that is striking Germany with particular force. It helps that most see the downturn as a shoddy American import and have yet to feel its full impact. Credit and blame must also be shared with the SPD. Yet Ms Merkel knows that crisis management is ultimately her responsibility; if it is seen to fail she is likely to as well.



Reuters

In some ways, her task is more difficult than Mr Obama's or Mr Sarkozy's. The economic slump is frightening, but to Germans the threats of inflation and ballooning government debt seem hardly less so. For Ms Merkel this means that over-reacting to the crisis is as much a danger as under-reacting. She thinks her government has struck a balance with three sorts of bail-out: of banks, of non-bank enterprises and of the economy as a whole. But in each case she risks getting the balance wrong.

Her party's star

That is especially true for banks. Ms Merkel and the finance minister, Peer Steinbrück, niftily headed off a banking panic last October by guaranteeing depositors' savings and rushing a €500 billion banking rescue through the Bundestag. But their proposals to shift banks' bad assets into "bad banks" would oblige them to pay off the losses over 20 years. That will make it hard for them to become good banks capable of attracting fresh capital.

A pair of stimulus packages worth €64 billion this year and next includes tax cuts, subsidies to keep workers in their jobs and a wildly popular €2,500 "bonus" paid to drivers who scrap old cars and buy new ones. Germans insist this is plenty. Tax cuts and extra spending add up to 1.6% of GDP this year and 2% in 2010, reckons the IMF, not counting automatic stabilisers such as unemployment insurance. But some trading partners still think Germany could do more, given its huge current-account surplus and its (pre-crisis) balanced budget.

Within Germany the big wedge issue has been rescues of non-financial enterprises. A €115 billion "Germany fund" provides guarantees and credits to companies that are in trouble through no fault of their own. Mr Steinmeier has vowed to "fight for every job", backed by CDU premiers when the jobs in question are in their states. Other conservatives fret that the government is throwing taxpayers' money away. Ms Merkel opted for a typical middle course, saying yes to a bail-out of Opel, the European arm of America's bankrupt General Motors, but no to Arcandor, a department-store group.

Messy, hesitant and opportunistic though the triple bail-out may be, it has not yet harmed Ms Merkel's standing with the voters. They continue to see her caution as wisdom, her penchant for splitting the difference as discernment. In resisting foreign demands to do more she is seen as standing up for German interests. If she did that stridently, Germans would be uneasy; perhaps because she is a

woman, the perception is she does not. The moderating style that Mr Steinmeier sneers at is read by voters as a sensible reluctance to polarise.

In the early days of the recession, there were fears that Germans would react by rejecting their leaders and, indeed, the economic system that produced it. But it turns out that they are not keen to experiment in troubled times. Ms Merkel has encouraged that response by doing enough so far to contain the crisis while reaffirming bedrock German principles, such as the social-market economy. Germans trust the canny physicist from the east. Now she means to press that advantage home.

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