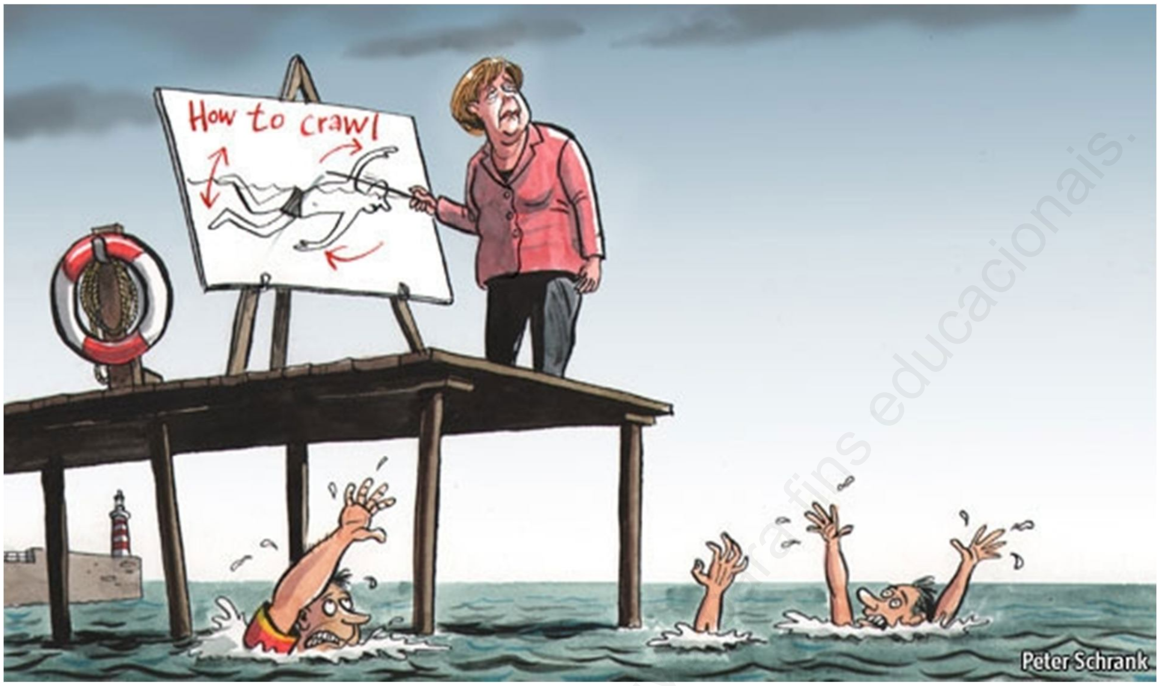
Angela Merkel, swimming instructor

When it comes to the euro, the German chancellor prefers self-help to help—but she can be more flexible than she seems



When warnings sound that the end of the euro is nigh, all eyes turn to Angela Merkel, the German chancellor. Germany must "assume its part" in saving the currency, says Spain's economy minister, Luis de Guindos. If there is rescuing to be done, Germany is the obvious rescuer. Yet rather than toss out the lifebelt, Mrs Merkel offers swimming lessons.

She would find this characterisation unfair. Time and again she has taken stands against bail-outs only to relent. She balked at bailing out Greece and at a permanent rescue fund and she vetoed the use of bail-out money to buy government bonds in the secondary market. In each case she gave in (too late, say critics).

By July she will push through parliament the European Stability Mechanism (ESM), the permanent fund she once opposed, and Europe's fiscal compact. Germany's capital contribution to the ESM will push its budget deficit from €26 billion ($32 billion) to €35 billion. Germany's potential liability, if all the money is lent and everyone defaults, could be €280 billion. But her partners want more: Eurobonds backed by all countries, more time for weak economies to meet deficit-reduction targets, direct lending to Spanish banks and a "banking union", with Europe-wide deposit insurance. Will Mrs Merkel yield on these, too? Do not count on it.

Despite her retreats, she sees herself as a defender of principle. Everything to which Germany has assented has been part of a bargain: peripheral countries get help, but only in exchange for reform. Aid from the European Financial Stability Facility (EFSF), the ESM's precursor, is conditional. Greek bail-outs came with crushing demands (which Greece may reject after its election on June 17th). The ideas urged by François Hollande, France's new president, and Mario Monti, Italy's prime minister, would break her principle, say the Germans. To introduce Eurobonds as a crisis-fighting measure would only encourage less creditworthy countries in their spendthrift ways. Similarly for centralised deposit insurance, which would enlist German banks (and ultimately the state) as guarantors of other countries' savings.

Such proposals “bear on the core issue: do debt and responsibility remain linked to each other?” asks Norbert Barthle, a member of the Bundestag from Mrs Merkel’s Christian Democratic Union. Any instrument that severs the link will perpetuate the crisis. Besides, such measures are forbidden by Germany’s constitution. That is not to say they can never happen. But they are imaginable only if the EU becomes more of a federal state, with a common fiscal policy and a parliament that reflects Germany’s share of the population. Mrs Merkel wants “more Europe”. But that requires “treaty changes, and we are not there yet today”.

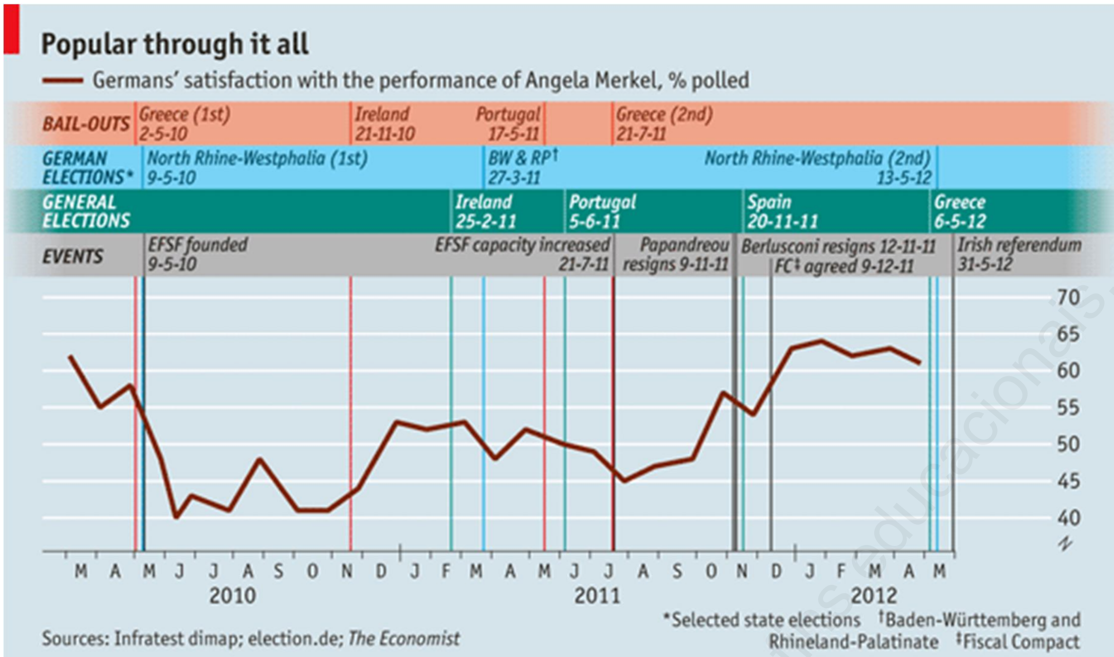
Would she consider the version of Eurobonds suggested by Germany’s advisory council of economic “wise men”? Under this scheme, debts exceeding 60% of GDP would be transferred into a fund with joint liability and paid off by the debtor countries over 20-25 years. Wolfgang Schäuble, the finance minister, says this too is thinkable only as part of a “fiscal union”. Mrs Merkel’s spokesman does not reject the idea categorically, but he points to “formidable” obstacles in Germany’s constitution and European treaties.

There is no support for relaxing fiscal targets for Greece or Spain. But Germany’s main opposition parties want growth-boosting measures alongside the fiscal compact. Since the treaty requires a two-thirds majority in both houses of parliament, the government has to negotiate on this. But Mrs Merkel can accept much of what they want, including a capital increase for the European Investment Bank and more effective use of European structural funds.

There are two sticking points. The opposition wants a financial-transactions tax, which the government thinks is unworkable unless all EU countries sign up to it (and Britain, for one, will not). But there are other ways to tax the financial sector that might provide the basis for compromise. The opposition also favours the wise men’s “redemption fund” proposal. But Mr Barthle, who is involved in the negotiations, insists there will be no such fund.

The German government does not accept that austerity is pushing the euro towards break-up. Yes, deficit cuts and structural reforms inflict short-term pain. But the rewards will come, as Germany’s own experience shows. The Baltic countries enacted austerity and are growing fast (see Charlemagne). Voters’ revolts in southern Europe show the folly of changing course, not the risk of sticking to it. Mr Hollande told French voters he would reduce the retirement age, notes Mr Barthle. “Germans are not prepared to work until they are 67 to allow others to retire at 60.” As for pressure from America, Barack Obama is clearly impatient for relief before November’s election. But he does not care whether recovery can be sustained, Germans say.

Germany is in denial. The crisis has not yet hit the German economy (though it may be about to), notes Sebastian Dullien of the European Council on Foreign Relations. He doubts if the government “is aware of how bad the situation really is.” Mrs Merkel wants to save the euro but believes peripheral countries can make still more sacrifices. That misperception is dangerous, says Mr Dullien. How dangerous may become clearer after Greece votes. The German line is that Greece must decide whether to default and perhaps exit from the euro. Europe is better prepared now than it was two years ago, says Mr Barthle. There is no legal provision for a country to leave the euro but an exit from the EU might be arranged, he adds. In short, Greece must learn to swim fast.



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