

## Slow, but popular

*Angela Merkel's cautious response to the euro crisis is backed by most Germans and by her party, which has just re-elected her almost unanimously as leader*



Two duelling German metaphors capture the strategy of Angela Merkel, Germany's chancellor, in the euro crisis. The pejorative version is that she is using "salami tactics", cutting off the thinnest possible slice of any rescue sausage being negotiated so as to make it more digestible for the German public. She has just done it again by belatedly accepting the latest support package for Greece and manoeuvring it through Germany's parliament.

As with votes on earlier packages, Mrs Merkel needed the backing of the Social Democratic Party (SPD) and the Greens, the two opposition parties that hope jointly to defeat her in next September's election. The two parties cannot risk appearing irresponsible, so they grudgingly support her policy. But they feel they must simultaneously attack her. So they accuse her of salami tactics to persuade voters that Mrs Merkel is not being forthcoming about how much sausage (ie, German commitment) remains to be sliced.

The more positive metaphor is that Germany's government is "driving by sight" (auf Sicht fahren). This is the term Germans use for safe driving in fog, when cars must slow down enough to be able to stop for any object that suddenly appears out of the mist. It is the metaphor preferred by Mrs Merkel herself and her lieutenants, notably the finance minister, Wolfgang Schäuble. Its message is that, even in the fog of crisis, Germans are in safe hands.

The voters seem to accept this fog-driving metaphor. In polls, Mrs Merkel remains the most popular politician and her Christian Democratic Union (CDU) and its Bavarian sister, the Christian Social Union (CSU), still lead the other parties. On December 4th CDU delegates re-elected Mrs Merkel as party leader with an almost East German 97.94% of their votes.

But the southern countries in the euro zone, many Eurocrats in Brussels and bond traders in London and New York might agree more with the salami metaphor. In their view, Germany has repeatedly resisted rescue initiatives over the past three years for as long as possible, only to join a compromise in the nick of time.

Her continuing popularity at home means that Mrs Merkel could now afford to go slightly faster. From one Brussels summit to the next, she concedes slightly more, while toning down demands she was making as recently as this summer. Largely gone from German rhetoric, for instance, is talk of passing fiscal sovereignty from euro-zone governments to a more

democratic and more powerful European Parliament and Commission. What could account for this softer turn?

The first explanation is a shift in the intellectual debate that shapes the views of Germany's policy elite. Most German economists come from a tradition called Ordoliberalism, sometimes translated as "new classical economics" and historically close to the famous Austrian school of economics. It is based on a small set of strict rules by government (the "ordo", or order) within which markets operate freely. Proponents today include Jens Weidmann, head of Germany's central bank, and Hans-Werner Sinn, president of Munich's Ifo Institute. They represent the hawks in the euro debate.

Thus Mr Weidmann, criticising the November package for Greece, cited Walter Eucken, the titan of Ordoliberalism in the early 20th century. The "precedent" of transfers to Greece undermines the Ordoliberal premise of liability, and thus credibility, that markets need to function, Mr Weidmann argued. Mr Sinn, in a bestselling book "Die Target-Falle", blames the euro crisis on lack of competitiveness in Mediterranean countries, shown by the huge current-account imbalances within the euro-zone. He thinks euro rescues are a "bottomless barrel" and believes a temporary exit by Greece would cost less.

Mr Weidmann, however, has become isolated within the European Central Bank, where he sits on the governing council. And Mr Sinn has fallen out of favour in Berlin, where Mr Schäuble allegedly refers to him in private as Professor Un-Sinn ("Mr Nonsense"). In the ascendant instead are economists like Peter Bofinger, one of Germany's "five wise men" advising the government. Mr Bofinger argues that Germany is a prime beneficiary from the euro and must show solidarity in preserving it.

A second factor is to be found in the politics of the euro zone. For the first two years of the crisis, Mrs Merkel had a tactical ally in France's former president, Nicolas Sarkozy. Now, however, she must deal with his successor, the Socialist François Hollande. Mrs Merkel is keen not to be isolated, should Mr Hollande try to build a Mediterranean coalition against her.

But the most important reason may be found in Germany's peculiar style of consensus politics. As Gero Neugebauer, a professor at Berlin's Free University, explains, policy changes in Germany have the best chance of success when they are revealed incrementally and long in advance of actual implementation. The critics and protesters then have time to exhaust themselves. This is how Mrs Merkel's predecessor, Gerhard Schröder, got through a controversial labour-market reform in 2003.

Mrs Merkel's personal style is well suited to this culture. Her critics and allies alike speculate that she learnt during her youth in East Germany to keep her own views opaque until a consensus materialised. As chancellor, she often lets deputies float trial balloons, committing her own support only once these prove popular. In the euro debate, she is observing how the discussion will develop on plans to introduce a common euro-zone budget that might become a vehicle for transfers by another name. In recent comments, she has also seemed to be opening the door to a haircut on Greek debt. Yet even if she is doing this, she will wait until after the election—and still drive slowly enough through the fog to brake at any time.

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