

Chapter 1

Exodus (Merkel's Journey)

As a young woman, Angela Kasner would set out from East Berlin each summer on a pilgrimage to the furthest reaches of where it was permitted to go. While others left to tend the fruit trees and berry bushes of their countryside dachas, Angela traveled south through Dresden, where the wartime remains of the Baroque Frauenkirche were visible from the railway station, on to the faded capital of the Czechoslovak Republic, where the Prague Spring had long since reverted to winter. From there, she went to Bratislava on the Danube river, which formed the border with Austria and the unattainable West, then on to Budapest, where she occasionally mingled with the few Western visitors who visited; some told her the city's parliament building and river setting reminded them of far-off London.

From Hungary it was across Romania on the long stretch east and then south to Bucharest, where Nicolae Ceaușescu was pursuing a policy of openness toward the West, a course that he would later reverse with brutal effect. She recrossed the Danube at Ruse on the Bulgarian border before arriving at Pirin in Bulgaria's southwestern corner, the end of the road. This was as far as she was able to travel. There, in a mountainous region known for its brown bears and wolves, the pastor's daughter who would become German chancellor looked longingly from the heights across the border toward Greece just a few kilometers distant. Greece, she thought; I'd like to go there, if even just once in my life.¹

Angela Merkel's political journey took her to become Germany's first woman chancellor and its first from the former communist East. As she was sworn in on November 22, 2005, she could not have imagined the role that Greece would play during her time in office, nor the significance that her eventual trip to Athens in the fall of 2012 would assume.

Greece and its aftermath were to mark the evolution of her chancellorship, forcing her transition from one of many political leaders in Europe to the region's pre-eminent crisis handler. Faced with economic and financial turmoil stemming from Greece that threatened the euro, the singular achievement of the unprecedented period of post-World War II peace and unity, Merkel was forced to evolve and adapt in ways that tested her ability to balance external demands for greater action with domestic political constraints on doing so. For Merkel, Greece was the pivotal challenge of a chancellorship forged in crisis.

Barring an 18-month honeymoon period, Merkel's time in office came to be defined by a continuous thread of unprecedented turmoil not of her making but which required her to act nonetheless. Her first term was dominated by the U.S. subprime-led banking meltdown and subsequent global recession, which led straight into the crisis in the euro area spreading from Greece that rocked her second term.

Greece was admitted to the euro in 2000, the same year that Merkel became the leader of her party, swapping the untested European currency for the drachma which had been in use since long before the age of Homer or Alexander the Great conquered the known world. Once inside the euro club, from January 1, 2001, the country went on a spending spree it could not afford. State outlays on infrastructure soared in the run-up to the 2004 Olympic Games in Athens, matched by a record surge in consumer spending, and by late 2009, as a new Greek government was elected and Merkel began her second term, the bill was overdue. What came to be known as the sovereign debt crisis erupted, rippling out from Greece across the 17-country euro area. Financial markets took fright at the state of the region's finances and started to push up the rates governments paid to borrow to unbearable levels, forcing Greece, Ireland, Portugal, Spain and Cyprus to seek international bailouts and bringing down governments across Europe as voters protested spending cuts and tax increases.

Investors betting on the euro's demise were pitted against politicians determined to stop it from happening, chief among them Merkel.

A scientist by training whose defining trait is caution, Merkel was forced to look beyond just Germany's interests and to assume leadership in Europe. Thrust to the fore of policy making, she stepped up, slowly but with growing determination, to defend the euro she saw as the glue holding together the European Union (EU) that had been forged out of the ashes of war to stop the continent ever again descending into conflict. But how did the chancellor who came to office pledging to govern by means of many "small steps" come to take on the role of European savior? And what would the rest of Europe make of her prescription for Europe's ills?

When she assumed the German chancellorship, Merkel took the helm of Europe's biggest economy when it was struggling to adapt to the challenges of globalization. Unemployment had reached a postwar record of 12.1 percent eight months previously, in March 2005, growth was an anemic 0.7 percent compared with an average 1.7 percent for the euro area – Greece recorded 2.3 percent – and Germany's budget deficit was poised to breach EU limits for the third straight year.² The EU's biggest wave of enlargement to date had brought 10 countries predominantly from the East into the bloc the previous year, including economically dynamic entrants such as the Baltic States and the regional powerhouse, Poland. Far from being Europe's dominant player, a decade and a half after German reunification in 1990 the continent's most populous country was playing catch up.

Germany was riven politically as well as economically after Merkel's predecessor, Gerhard Schröder, had split with the U.S. over his refusal to join the 2003 invasion of Iraq. His program of far-reaching labor-market and welfare reforms had prompted street protests and divided his Social Democratic Party, even if Merkel had aligned her Christian Democratic bloc behind the measures. Yet Merkel was unable to capitalize on the situation and beat Schröder by a single percentage point in the 2005 election, limping into power at the head of an unwanted grand coalition with his party as governing partner.

As she prepared to contest elections in the fall of 2013, Merkel presided over Europe's predominant country, with unemployment near a two-decade low and a budget close to balanced. Courted by prime

ministers and presidents from across Europe who sought to win her over to their side, her policy stances were those that mattered most, her example the line hard to ignore. She had become Europe's indispensable leader. So how did Merkel turn the continent's most populous country around? What qualities did she bring to the post of chancellor that united a majority of Germans behind her? More than that, how did she position Germany as Europe's foremost country, so much so that traditional allies including France, Italy, and Spain grew resentful of her methods and some in Greece, Ireland, and Portugal even questioned her motives?

The answer lies in large part with the evolution of the crisis and how Merkel brought the rigor of scientific analysis she'd learned in the physics laboratories of East Berlin and Leipzig to problem-solving of an economic and financial nature. Through trial and error, she edged her way forward, often to the dismay of her European peers and the exasperation of global partners. The German public, however, liked what they saw; polls consistently showed that they overwhelmingly backed her cautious stance, toward aiding banks in 2008, on measures to kick-start the economy in 2009 and above all on her handling of the debt crisis from 2010 onward. Throughout, she refused to be Europe's unconditional paymaster.

Merkel's response was to impose limits on aid and demand strict conditions in return, foremost among them budget cuts and deficit reduction to tackle what she saw as the root causes of the debt crisis. As she pushed a wary Europe to adopt the ways of Germany's highly competitive economy, Merkel stirred up old enmities and became the fulcrum in a clash between European and U.S. economic values. Her prescription exposed a fault line with U.S. officials who urged the deployment of more firepower to fight the crisis and greater burden sharing by Germany, while the austerity she advocated exacerbated a surge in unemployment to record levels in countries such as Greece and Spain and risked deepening the economic slump. Standing out in front as those who challenged her answers fell by the wayside, Merkel's means of defeating the crisis brought Europe to a crossroads. She was demonized in the Greek press as a jackboot-wearing Nazi hell-bent on reducing Greece, suffering the worst economic downturn since the war, to the status of a German colony.

Dispensing with caution for once, Merkel's visit to Athens in October 2012 was intended as a riposte and a tangible show of solidarity for the Greek people. The German government insisted it was a "normal visit," but it was clear she was entering the lion's den. The *New York Times* called Athens "the most hostile territory in Europe" for the chancellor.³ Police were drafted from across Greece as some 40,000 protesters gathered on the streets to show their rejection of the European leader they regarded as the chief cause of their misery. Merkel, heavily guarded, came with no promises of additional aid, no pledge to ease the terms of Greece's bailout loans, nothing other than a message of support. "I believe that we will see light at the end of the tunnel," she said beside Prime Minister Antonis Samaras. "I want Greece to stay in the euro."⁴

After assessing the alternatives, Merkel took the political gamble of her life and decided to stand by Greece and save the euro – but on her terms. In doing so, she garnered plaudits and criticism for her path to resolving the turmoil. As the biggest paymaster, her status as de-facto leader of Europe was undisputed, yet with resentment of her newly assertive Germany growing, it was far from clear whether the rest of Europe was prepared to share the journey to her final destination. Merkel acknowledged that her recipe for addressing the problems of the euro region through austerity and painful reform could raise hackles in other countries. But she saw that as one of many climbs to be surmounted on the way to a fitter Europe better able to compete on the global stage. "We have to be a bit strict with each other at the moment so that in the end we are all successful together," Merkel said in November 2012. "I think it's better to try and tell the truth among friends and then continue to show solidarity with one another."⁵

As she concentrated on Europe, Merkel's domestic agenda was swept away by crisis. From March 2010, when she delivered her first speech to the Bundestag on Greece, through the end of 2012, Merkel addressed the full plenary session 24 times: two of her speeches focused on energy and the decision to abandon nuclear power in favor of renewables, and one on Germany's contribution to the military mission in Afghanistan; the other 21 dealt with aspects of the euro crisis and its ramifications for Germany and Europe.

Investors, economists, and political analysts hung on her every speech and policy twist as she honed her strategy to defend Europe and save the euro. Yet the chancellor has remained an enigma to many, her driving forces often misunderstood both in and outside Germany. A political outsider because of her roots, Merkel and her decision making remains opaque because of her Eastern habits such as a preference for doing her negotiating behind closed doors, turns of phrase that even Germans find hard to decipher and a dislike of sound bites. For Merkel, the European debt crisis centered on Greece became the crucible of her chancellorship, dominating her second term and helping to determine whether she served a third. Going forward, her choices will decide the success of Europe's experiment to leave war behind, preserve its welfare states, and become the world's most competitive economy. Where is she going? If she wants to, using Germany's returned strength, Merkel has unprecedented leverage to take Europe in whichever direction she chooses.

Notes

1. Merkel speech on EU Danube strategy, Regensburg, November 28, 2012: <http://www.bundestkanzlerin.de/Content/DE/Rede/2012/11/2012-11-28-merkel-donau.html>.
2. Eurostat table of EU country GDP: <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=tec01115>.
3. <http://www.nytimes.com/2012/10/10/world/europe/angela-merkel-greece-visit.html>.
4. Brian Parkin and Marcus Bensasson, "Merkel Urges Greece to Maintain Austerity to Stay in Euro," *Bloomberg News*: October 9, 2012: <http://www.bloomberg.com/news/2012-10-09/merkel-s-athens-message-seen-directed-at-german-greek-audiences.html>.
5. RTL interview, November 10, 2012: <http://www.bundestkanzlerin.de/Content/DE/Interview/2012/12/2012-12-11-bkin-n-tv.html>.