The eurozone crisis is Angela Merkel's chief dilemma

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Angela Merkel's second term as chancellor, which began in 2009, has been a difficult one. On the home front, there has been much infighting inside her CDU-FDP (conservative-liberal) government, her FDP coalition partner is weak and unpopular, and her own party, the CDU, has lost ground in important regional elections. Merkel's main challenge, however, remains the ongoing crisis in the eurozone. While her government and the majority of Germans back rigid austerity policies for Greece, Spain, and Italy, the mood in many other European capitals has shifted towards increasing public spending in order to boost economic growth. The chancellor now finds herself increasingly isolated in Europe. One of her principal allies, the former French President Nicolas Sarkozy, was defeated in May 2012 by his socialist opponent, François Hollande, and the new French president is striking a more independent line. Ahead of the French presidential elections, Hollande consistently called for a renegotiation of the European fiscal treaty, which imposes strict new budget rules for eurozone countries. After entering office, Hollande repeatedly said that he would not ratify the treaty unless it contained a commitment to promote growth. He has also called for the introduction of Eurobonds to pay for European infrastructure projects. Moreover, Hollande's new Prime Minister, Jean-Marc Ayrault, has demanded that the European Central Bank (ECB) should be able to lend money directly to countries in crisis. Both sets of proposals are diametrically opposed to Merkels' own ideas.

In response to the French plans, Merkel presented her own growth strategy and called for fundamental structural reforms: government-owned businesses should be sold off, protections against wrongful dismissal relaxed, and obstructive regulations for companies removed. As the German magazine Der Spiegel commented dryly, 'in short, the Mediterranean region is to become more like Germany, but with better weather'. Meanwhile, the financial markets and governments continued to speculate on a Greek withdrawal from the eurozone, and the weakening single currency has exacerbated economic imbalances.

An EU growth summit at the end of June will be an opportunity for Merkel and Hollande to present their competing growth plans. The stakes are high. The shape of any agreement will determine the fate of the single currency and perhaps the EU. Yet compromise will not be easy. For the German chancellor, agreeing to the creation of Eurobonds could be a step too far. As a recent Politbarometer survey (May 2012) reported, 79 per cent of Germans were opposed to the idea. In addition, German voters have become increasingly skeptical towards Greek membership of the euro: 60 per cent of respondents in the same survey said that Greece should leave the eurozone. Overall, attitudes towards the single currency have become more critical in recent months: now every second German thinks that the euro is more disadvantageous for Germany than advantageous.

The relatively healthy state of the German economy is helping to shield German voters from feeling the worst effects of the ongoing crisis in the eurozone. To paraphrase a Chamberlain, it is a faraway crisis of which they know little. However, Greece's abandonment of the single currency would hurt the German banking system and greatly weaken the wider economy. Chancellor Merkel thus has an unenviable task at the approaching EU summit. She has to achieve a compromise with France and her other EU partners, but she is constrained by domestic pressure. Her actions will directly affect whether German voters come to know more of the crisis first hand.

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The IGS' current research project 'Zeitgeist – what does it mean to be German in the 21st century?' explores, amongst other themes, the role of Germany in the ongoing Eurocrisis.

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