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How Merkel Failed Greece and Europe Angela's Ashes

By Peter Müller and René Pfister

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Angela Merkel relishes her reputation as queen of Europe. But she hasn't learned how to use her power, instead allowing a bad situation to heat up to the boiling point. Her inability to take unpopular stances badly exacerbated the Greek crisis.

Angela Merkel was already leaving for the weekend when she received the call that would change everything. The chancellor had just had a grueling day, spending all of it in meetings with Greek Prime Minister Alexis Tsipras -- sometimes as part of a larger group, and others with only him and French President François Hollande.

They discussed debt restructuring and billions of euros in additional investments. When it comes to issues important to him, Tsipras can be exhaustingly stubborn. In the end, though, Merkel was left with the feeling the EU summit was the milestone that could quite possibly mark a turn for the better.

Martin Schulz, president of the European Parliament, had pulled Merkel aside in Brussels and whispered to her that Tsipras was seeking allies in the opposition, with whom he could push a reform program through Greek parliament even without the consent of the radical wing of Syriza, if necessary. "Can you help me?" Tsipras had asked Schulz. Schulz has good connections in the Social Democratic PASOK Party.

But when Merkel returned to Berlin, she received a call from Tsipras. He told her that he was not interested in a deal, but that he intended to hold a referendum in Greece first. A short time later, he tweeted: "With a clear 'NO,' we send a message that Greece is not going to surrender."

Merkel is known for not being easily fazed. She has made it this far in part because she has firm control of her emotions. And she remained silent throughout the weekend. But at a Monday meeting of leading members of her Christian Democratic Union (CDU), she hinted at the depth of her disappointment in Tsipras. His policies are "hard and ideological," she said, adding that he is steering his country into a brick wall "with his eyes wide open."

Merkel had always described Tsipras as a man who, while leading a crazy organization, was quite open and accommodating in person. She had hoped that Tsipras would ultimately help reason prevail. Now, though, it appears that he has handed Merkel the greatest debacle of her tenure as chancellor.

'Nothing Left to Fear'

In the end, of course, it will primarily be the fault of the radical Greek government if the country is ejected from the euro zone. How should one deal with a prime minister who conducts negotiations using the language of military mobilization? "We have justice on our side. If we can overcome fear, then there is nothing left to fear," Tsipras tweeted on Monday.

But the divide that is now opening up in Europe also has something to do with Merkel's leadership style -- and with her idiosyncrasy of allowing things to drift for extended periods. This method works when it comes to negotiating a compromise, and when everyone involved is interested in a favorable outcome. But it reaches its limits when someone like Tsipras is determined to carry things to the extreme.

It has long been clear that Greece is a special case in the context of the euro crisis. It is a country in which neither the taxation system nor the land registry system works, a country that is so deeply in debt that no reasonable economist still believes that it can ever repay what it owes. In addition, parties that habitually plundered the state ran the country for years. Then came Syriza, a movement that, at least in its radical quarters, dreamed of toppling the system.

Merkel knew all of this. Nevertheless, she tried to fix the problem with recipes she had used in German domestic politics: delaying, hiding and allowing things to remain vague. There was no lack of cautionary voices. Finance Minister Wolfgang Schäuble has long argued that Greece should be taken on an orderly path out of the euro.

Merkel hopes that the Greeks will vote against Tsipras and in favor of their creditors' austerity proposals on Sunday. If that happens, the Greek prime minister will hardly be able to remain in office. But even so, Greece will remain a bankrupt country and would be faced with forming a new government in the midst of chaos.

The Greek crisis required leadership and a plan, but Merkel was unwilling to provide either. Although she likes power, when push comes to shove, she doesn't know what to do with it. And now she faces the wreckage of her European policy. How could things have come to this?

McKinsey Policies

To understand Merkel's policies, it is worth turning back the clock to 2003. She had only been head of her party for three years and was in the midst of writing a new agenda for the CDU. There were four-and-a-half million unemployed in Germany, social security coffers were empty and employers were groaning about an excessively high tax burden. Germany wasn't nearly as badly off as Greece is today, but it was in urgent need of restructuring, and Merkel began to prescribe a strict reform program for the country. The McKinsey management-consulting firm provided the numbers to support her bitter message of austerity.

McKinsey specializes in delivering unpleasant truths and is normally hired by companies that need to cut costs and lay off employees. It is easier for managers if they are able to hide behind the consultants' analyses. That's the McKinsey principle.

Merkel applied the principle to politics. When the euro crisis erupted in 2010, she made sure that the International Monetary Fund (IMF) was involved in Greece's restructuring. She did so against the will of Finance Minister Schäuble, who believed that Europe should solve its own problems.

In a sense, the International Monetary Fund is the McKinsey of global politics. It helps out wherever countries face financial difficulties, granting loans if countries agree to enact reforms in return.

Reintroducing Mathematics

The idea made sense at first. One reason Europe had slid into the crisis was that the Continent, amid the euphoria of integration, had paid little attention to numbers. Former Chancellor Helmut Kohl introduced the euro, but in doing so, he paid too much attention to his emotions and not enough to economic realities. The purpose of bringing in the IMF was to reintroduce mathematics to the equation.

But the McKinsey principle conflicts with Merkel's claim to power. Her advisers like to portray the chancellor as the queen of Europe, as someone who shapes its guidelines. But in recent months, she has come across as a woman who is hiding behind the advice and recommendations of IMF experts -- behind the "technocrats," as Tsipras puts it.

In this sense, the struggle between Merkel and the Greek premier is also a battle over the definition of the political. Tsipras has turned the IMF into a symbol of oppression, into a group of technocrats who lack democratic legitimacy and yet are subjugating an entire country. He knew how to stylize resistance to the IMF into a battle over a nation's self-determination. His aim was to elevate the conversations to the political level.

For Tsipras, politics is a magic wand that can make everything disappear: mountains of debt, reform requirements and the rule that prohibits the European Central Bank (ECB) from keeping countries liquid by printing money. It is hard to say what Syriza actually wants. The party is as much a home to former Maoists as it is to disillusioned social democrats. Some dream of a revolution, while others would be satisfied with debt forgiveness. But one thing is clear: Tsipras' radicalism lies in his faith in the power of the decision. If he doesn't accept rules, he demands that they be dissolved. This is the logic of Syriza.

Merkel's real failure is that she did not decisively stand up to his way of thinking. First, she hid behind the troika, because she didn't want to be the one to deliver the bitter truths to the Greek government. She followed the McKinsey principle.

Then, when Tsipras' demands became more and more urgent, she bowed to his logic. She adopted the motto: "Where there's a will, there's a way." In Germany, these words were interpreted as a sign of goodwill -- of the desire to keep Greece in the euro zone. But Tsipras interpreted them completely differently: as a challenge to bring matters to a head.

Merkel's Europe

Last Monday, Merkel stood in front of a blue screen in the lobby of the Chancellery and uttered a sentence that typifies her European policy. She was discussing the question of whether a "no" vote by the Greeks to the creditors' reform program was tantamount to a "no" to the euro. Instead of saying "yes" or "no," she said: "I will say quite openly: I am divided on this issue."

One cannot accuse Merkel of not having principles when it comes to foreign policy. Her fidelity to the US is unbreakable, a fact that the NSA's surveillance of her mobile phone and of several German ministries has done nothing to change. She stands firmly behind Israel, even if the current government has done nothing to establish peace with the Palestinians. And in the end, she has managed to get along with every French president who has crossed her path, even with François Hollande, who campaigned against the German chancellor and her austerity policies.

Her position on Europe, however, is less clear. On the one hand, there is the Merkel of numbers. When she travels the world, to China or Indonesia, for example, she always has all the tables and diagrams at hand to show the great effort such countries are making and how good Europe has it with its prosperity. A typical Merkel triplet goes as follows: Europe contains just 7 percent of the global population and is responsible for just 25 percent of global economic output, but pays half of all global social welfare. From her perspective, a high school diploma isn't necessary to realize that such a situation cannot continue forever.

On the other hand, she has learned over the years that it doesn't come across well when she only casts a cold economic eye on Europe. It seems unfriendly. That helps explain why Tsipras was able to cast her as the villain -- as the German dominatrix of austerity -- because she was constantly talking about amortization and interest rates. In addition, she is the head of a party that pushed harder than any other for European integration and didn't focus exclusively on money. She knows that she cannot simply ignore that tradition -- which is why she sometimes has to slip into the role of the convinced European.

Just how divided Merkel is can also be seen by looking at her advisors. Chancellery head Peter Altmaier is a portly, unruffled man from the state of Saarbrücken near the French border. Prior to becoming involved in German politics, he worked for the European Commission and speaks fluent English, Dutch and French. In the past several months, Altmaier has done his part to ensure that Merkel remain committed to Greece, arguing that the European idea would be damaged were the community to allow a country to fall out. His answer to the crisis is: more Europe.

No Illusions

On the other side is Nikolaus Meyer-Landrut, who has led the Chancellery's Europe department for several years. He is a wiry bureaucrat with a sharp tongue, but not without humor. Meyer-Landrut's view of Europe and its problems is free of emotion. He is the one who provides Merkel with all the numbers that show why progress isn't being made in Greece. His answer to the crisis is: nation states need to take control.

Numbers-Merkel has no illusions about Greece. She doesn't believe the political classes in Athens will be able to get the country on the right track. Once, during a flight she was suddenly gripped by a laughing fit. She said that the Greek government was refusing to pay the bill for German submarines it had purchased. Their justification was that the subs were crooked. "Crooked!" Merkel said as tears of hilarity rolled down her cheeks.

In October 2012, she visited then-Greek Prime Minister Antonis Samaras in Athens. She didn't have much respect for Samaras, who had won as head of the conservative party Nea Dimokratia by running against the reform program demanded by Greece's creditors. Once he got into office though, he buckled -- but as has so often been the case, his pledges to Brussels were never fulfilled.

On the return flight to Berlin, a bemused Merkel told of a boast Samaras had made in an interview -- that his ministers could reach him on weekends as well. The moral of the story was clear for her: How can a country move forward when its leader sees something so banal as an act of heroism?

Back in 2012, Merkel was close to pushing Greece out of the euro, but she balked in the end. She was afraid that it could have a similar effect as the Lehman bankruptcy did in 2008. That was the spark that ignited the global financial crisis.

A Policy of Pedagogical Imperialism

Since then, the chancellor has gone back and forth. Sometimes she is Numbers-Merkel and sometimes she is Europe-Merkel. Numbers-Merkel sees the Grexit as the most reasonable solution. But Europe-Merkel is concerned about being seen as the EU's grave-digger should she let Greece fall. There are decent arguments on both sides, but Merkel never made up her mind. She left things open.

The euro crisis opened up a new dimension of power for Merkel. Since 2010, there has been an endless series of crisis summits in Brussels and the German chancellor was always the center of attention. She was the one sitting on the biggest war chest, a fact which granted her far-reaching influence. And Merkel enjoyed her role as the queen of Europe. She didn't lord it over the others: She wasn't as loud as Gerhard Schröder and wasn't as forceful as Helmut Kohl.

Instead, she did what no German chancellor had ever done before. She followed a policy of pedagogical imperialism, with the lesson plan calling for budgetary discipline, labor market reform and privatization. It worked in Spain, Portugal and Ireland, but in Greece, the conditions imposed by creditors were not seen as necessary medicine but as a poison that was destroying society.

Merkel saw what was happening, but she didn't have the courage to face the consequences. And there were alternatives. She could have offered Greece a safe and supported path out of the euro zone. That is the course of action that Finance Minister Wolfgang Schäuble has supported internally for years. She could also have offered Greece a debt haircut. Had she done so at the right moment, she could at least have prevented the radicalization of Greek politics.

None of these options would have been free of risk. They would have required courage and money, and they would have opened up Merkel to attack. And that is something she didn't want.

So she hid behind the troika, behind the hated technocrats, thereby accelerating the rise of Syriza. Indeed, Tsipras is, to a certain extent, a product of Merkel's vacillating leadership style. In the Chancellery, people are expressing relief that Tsipras was unable to drive Europe apart and that nobody is blaming Germany for the current impasse. That may be true, but it is also a rather simplistic view. Success for Merkel is when nobody is pointing their finger at her.

In the Shadow of the Giant

In just under five months from now, on Nov. 22, Merkel will have been in office for a full decade. Thus far, she hasn't paid much attention to her legacy. Which makes sense. The mere fact of who she is makes her unique among German chancellors. Konrad Adenauer firmly anchored Germany in the West. Willy Brandt reconciled Germans with democracy. Helmut Kohl is the chancellor of reunification.

Merkel is Germany's first female chancellor. That's not a small thing. It is important symbolically. But people who know her well say that Merkel is determined to run again in the next general elections. Because of Europe. She wants to use her power to reshape the Continent. Should the euro zone disintegrate, it would forever overshadow her time in office. She would be seen as a failed head of government.

Last Monday, Merkel held a speech on the occasion of the CDU's 70th birthday, a good opportunity to say make a few things clear. Strangely, though, she remained trapped in the rhetoric that Helmut Kohl once used. The party was held in a power station, and Merkel noted in her speech that the facility had been part of the Wehrmacht's last line of defense against the advancing Red Army. "Just like this factory, the entire country lay in ruins."

Europe, she continued, is the answer to the horrors of that war. It is a nice thought and a vitally important one. But it is far from new. The consequence drawn by Kohl is that Europe must continually draw closer together. But Merkel has drawn no such conclusion. And therein lies her contradiction. She borrows from Kohl's rhetoric, but not from his political convictions. Which explains why there is a growing gap between her words and her deeds.

What Does She Want?

Three days before the CDU celebration, Merkel was at an EU summit in Brussels. The Greek crisis was on the agenda, but there was another issue to discuss as well. European Commission President Jean-Claude Juncker tentatively presented a paper in an effort to give Europe a new goal, a new idea that reaches beyond the day-to-day.

He proposed that the Commission be granted greater powers -- on budgetary oversight, for example. Juncker wasn't trying to launch a revolution, nor was he trying to lay the cornerstone of a European government or to eliminate European nation-states. It was nothing more than an attempt to draw a couple of practical consequences from the euro crisis.

But Merkel doesn't even want that. At the press conference following the summit, she spoke about everything: about Greece, about refugees trying to cross the Mediterranean, about Jacques Delors, who had been named an honorary citizen of Europe. Regarding Juncker's proposal, she had but one thing to say: she "took note of it." In politician-speak, that essentially means: Forget it.

Merkel wants a Europe of nation-states and not a deeply integrated Europe. She was concerned about Juncker running as the lead conservative candidate in 2014 European elections, worried -- correctly -- that it could result in a reduction of power for European heads of state and government. Furthermore, she doesn't trust the European Parliament because majorities aren't as dependable as they are in the Bundestag back home in Berlin.

The chancellor says none of this openly because it would contradict the CDU's founding principle. She can speak like Kohl, but she breaks with what he stood for. Left behind is a confused EU that doesn't know what the most powerful woman on the Continent actually wants.