

Regulation and transparency

ANGELA MERKEL

CHANCELLOR, THE FEDERAL REPUBLIC OF GERMANY

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She faces elections in September for a second term as Germany's Chancellor, and until then, as the leader of Europe's biggest economy, Angela Merkel is determined to play the role of Europe's leading politician.

And in that role, she has questioned US President Barack Obama's growing calls for an internationally coordinated spending package to jumpstart the world economy. Nevertheless, she has remained upbeat about the meeting.

Speaking alongside British Prime Minister Gordon Brown on 14th March while G20 finance ministers were meeting in southern England, Chancellor Merkel said: "This summit is going to give very positive signals indeed, it's going to be a very positive message to the rest of the world that we want to promote growth globally. I am very optimistic that we can come up with good results."

Chancellor Merkel said the summit did not necessarily need to go over the details of national stimulus packages already put in place, and that Germany had already taken "gigantic" steps to stimulate its economy, the largest in Europe.

"Germany has by now adopted a fiscal stimulus package to the tune of 4.2 per cent of the GDP for 2009-2010. That means we're in the vanguard, actually, in the European Union," she said.

She noted that Germans did not suffer the same problems with home loan and credit card debt that Americans did, and that it was time to wait for her fiscal stimulus package to take effect and reassure markets on fiscal discipline.

"We must return to a solid, sustainable fiscal policy after the crisis. So we have got to signal to markets that on the one hand we are tackling the crisis decisively and that, on the other hand, we will permanently avoid excessive global imbalances."

In the face of the global slowdown, Chancellor Merkel has forged a European position not to go beyond tax cuts and emergency spending that the EU says amounts to 3.3 per cent of gross domestic product.

In the run-up to the April summit, Germany and France have focused instead on cross-border rules for finance. "We have agreed that Germany and France will send a common signal at this summit" on 2nd April, Chancellor Merkel said at a joint press conference with French President Nicolas Sarkozy in

Berlin on 12th March.

"The issue is not spending even more but to put in place a regulatory system to prevent the economic catastrophe that the world is experiencing from being repeated," Mrs Merkel said, rejecting Washington's calls for more spending.

There must be "regulation and transparency of financial markets," she said.

She's been criticised. Nobel laureate economist Paul Krugman accused the Chancellor of underestimating the scale of the crisis, calling Germany a "giant stumbling block" in the global fight against the recession, in *Der Stern* magazine in early March.

Germany has enacted two special spending packages since late last year, including 100 billion euros to boost company liquidity and 82 billion euros in measures including a premium for people who scrap old cars in order to buy new, energy-efficient vehicles.

Europe's largest economy has used the euro to rebuild its competitiveness, and the EU's eastward expansion in 2004 moved Germany from the edge of the European market to the centre.

Germany has so far weathered the global recession better than most developed nations: it has no credit or housing bubble, employment has held up well, and its public budgets are balanced. Nevertheless, the German economy is expected to shrink 2.3 per cent in 2009, the second-worst in the 16-nation euro region, after Ireland.

An 18 per cent jump in eastern European sales contributed to a 30 per cent profit increase at Volkswagen AG's Audi luxury division last year. SMT Scharf AG, maker of 45 per cent of the world's mining railways, expanded its workforce in eastern Europe after Poland became its top export market.

German exports to the EU's 10 eastern states totalled 116 billion euros in 2008, surpassing exports of 72 billion euros to the US, a country with three times the population of eastern Europe.

Born in communist East Germany, Merkel has forged links with eastern Europe, in contrast to France's President Sarkozy, who in February slammed carmakers Renault SA and PSA Peugeot Citroen for creating jobs in the Czech Republic.

Chancellor Merkel's approach makes political sense. With an election on September 27, a big tax cut or spending boost before then could ruin her

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administration's proudest major accomplishment: balancing Germany's budget.

Her steady-handed course is popular with German voters and her approval ratings remain the highest of any major Western leader. Neither the Social Democrats nor the Left Party – whose leader, Oskar Lafontaine, is Germany's loudest advocate of deficit spending – have made any gains. That also shows that, to German voters at least, Chancellor Merkel must be doing something right.

That said, Chancellor Merkel's fortunes and those of her CDU party have waned since the recession took hold in Germany at the end of 2008, and she has been accused of indecision for her slow response to dealing with the crisis.

Opinion polls have put the CDU at its lowest ebb in more than two-and-a-half years – 33 per cent. Another for the ARD television channel showed it down 2 per cent to 32 per cent, while Germany's ZDF television had it dipping 1 per cent to 37 per cent.

Her position has been made difficult by the crisis that has engulfed carmaker Opel, which is part of the US GM group. GM Europe executives visited Berlin in March to ask for more than US\$4.2 billion from European governments, most of which would come from Germany where the auto maker has its largest operations.

Some 750,000 Germans work in the struggling auto sector, not just for car makers like BMW or Volkswagen but also for parts makers such as Bosch or Continental and in other related sectors.

Many of these companies have reported plunging sales, laid off workers, stopped production and warned of shrinking profits, and Berlin is under pressure to step in. Helping Opel would leave Merkel vulnerable to accusations that she has abandoned her free-market principles, potentially driving voters towards the FDP.

Which leaves the leadership question. Europe once again seems to be fighting with itself. Germany, thanks to its economic clout as the world's biggest trading power, seems best placed to help unify in this crisis. It has vital stake in the health of the global economy, stable financial systems, and open, liberal markets.

In part, that may be because in the current mood it's difficult, if not impossible, for politicians to fight against the tremendous pressures to deliver solutions. Perhaps Angela Merkel's steady, moderating voice amid the chaotic daily barrage of crisis plans is the best and most useful thing that Germany has to offer. **F**

Angela Merkel,
Chancellor of the
Federal Republic
of Germany

