

**MERKEL'S GREEK DEAL**

# A Pyrrhic Victory for Madame Europe?

Chancellor Merkel emerged from the bruising E.U. summit as the victor, having forced Greece to accept the toughest terms possible. But the deal could have a lasting negative impact on Germany's reputation.

BY SIOBHÁN DOWLING



Sealing the deal: Mr. Schäuble and Ms. Merkel. Source: AFP

In the early hours of Monday morning, Chancellor Angela Merkel and Greek leader Alexis Tsipras had all but given up on reaching a deal, until Donald Tusk, the European Council chairman, intervened.

"Sorry, but there is no way you are leaving this room," the former Polish prime minister is reported to have told the two sleep-deprived leaders, who had already been engaged in marathon all-night talks.

## WHY IT MATTERS

Germany has won the battle with Greece, but has it lost the war for hearts and minds in Europe?

## FACTS

Chancellor Merkel pushed hard in negotiations with Greece at the weekend summit, securing tough conditions for a €86 billion summit.

Greece has until Wednesday to pass "prior action" reforms and back the deal.

118 members of Ms. Merkel's Christian Democrats have already said they won't back a third bailout.

Up to that point, Mr. Tsipras had held out, resisting a €50 billion [privatization fund](#) for his country's assets demanded by Germany. Mr. Tusk was determined that a deal aimed at preventing a Grexit would be reached.

In that battle of wills, we now know that it was the German chancellor who prevailed.

[The Greeks capitulated](#) and signed up to a three-year bailout program worth an estimated €86 billion that if passed by parliaments in Greece, Germany and a handful of other states, will effectively put the Greek economy under E.U. supervision.

Yet, could this also be a Pyrrhic victory for Ms. Merkel?

The woman who has spent much of the past decade in power cultivating an aura of mediator, someone who stood above the fray, striving for consensus, had been forced to play hardball to protect German interests.

Ms. Merkel had won plaudits for her skills as a mediator, securing a deal on climate change at the G7 gathering of rich countries earlier this year, and giving Germany an increasingly prominent foreign policy role over trying to resolve the Ukraine crisis, yet that image of "Madame Europe" looks tarnished after this weekend's bruising summit.

Both Ms. Merkel and her finance minister, Wolfgang Schäuble, decided to push Greece to its very limits. In doing so they may have undone a lot of good will toward Germany, at least in many parts of Europe as well as further afield.

"In one weekend, 70 years of post-war diplomacy were destroyed," commentator Wolfgang Münchau wrote in a piece for Spiegel on Monday, adding that Germany's tactics were akin to 19<sup>th</sup> century power plays in which "the stronger force the weaker to accept their will."

In particular the fact that Mr. Schäuble brought a temporary Grexit proposal to the table on Saturday night, which had been signed off with Ms. Merkel, caused dismay among many commentators.

“Germany was not ready to keep Greece in the euro zone at any price. And that’s a good thing, because if one does that, then one can be blackmailed.”

MATTHIAS KULLAS  
CENTER FOR EUROPEAN POLICY

The biggest country in the euro zone was suggesting that a member could be asked to leave, ostensibly for just five years. Although the suggestion was subsequently removed

from discussions, it may have seriously dented the idea of Germany as the benign hegemon in Europe.

To many observers, it was only France and Italy’s intervention that dissuaded Germany from allowing Greece to be cut loose altogether.

In the end, it was the fact that Ms. Merkel appeared to be prepared to accept a Grexit that gave her the upper hand in the negotiations, argued Matthias Kullas of the Center for European Policy in Freiburg.

“Germany was not ready to keep Greece in the euro zone at any price,” Mr. Kullas said. “And that’s a good thing, because if one does that, then one can be blackmailed.”

“This is why Greece budged in the end,” he told Handelsblatt Global Edition.

“I don’t believe she would have been the one responsible in the case of a Grexit,” he added. “She would not have been responsible if that had occurred. There are agreements that Greece has not implemented, and I would not say that the ones who insist on sticking to the rules are responsible.”

For Ms. Merkel it was essential that she deliver the toughest deal possible, if she was not to face a full-scale rebellion in her own party.

Many in her Christian Democratic party, the CDU, have openly called for Greece to be allowed leave the euro, rejecting the idea of giving more German taxpayers’ money to a Greek government that has eroded much trust, particularly in Germany.



Tough summit talks. Source: EPA/OLIVIER HOSLET

It was only by squeezing the maximum out of her Greek interlocutor that Ms. Merkel could present a deal keeping Greece in the euro zone as anything but a defeat.

Some critics believe that Mr. Schäuble and Ms. Merkel were even hoping to provoke a Grexit with their uncompromising stance. “I think their default position going into this meeting was that they tried to provoke a Grexit,” said Henning Meyer, a research associate at the London School of Economics, who is also editor in chief of Social Europe journal. “They constantly moved the goalposts backwards.”

“She was inclined to actually push Greece over the edge,” he told Handelsblatt Global Edition. “She knows that she is caught between a rock and a hard place domestically.”

Now, she will have her work cut out bringing around her all her Christian Democrats to the idea of a third Greek bailout in five years. Back in February, in a Bundestag vote on extending the country’s second bailout program for another few months, 29 members of her CDU and its Bavarian sister party the CSU [rebelled](#). Afterwards 118 lawmakers from the two parties declared they would never back a third aid package for Greece.

Even after Greece's humiliating climbdown, there is still skepticism in the party. Wolfgang Bosbach, long a critic of the bailouts for Athens, said on Monday: "The money is lost, and we shouldn't talk around that."

Another leading CDU member, Carsten Linnemann said. "The euro zone has reached the point where it has to be honest. Greece will also not be able to fulfill these new conditions."

“There are absolutely no hallmarks of compromise and partnership that have characterized German politics in the European Union ever since the end of the Second World War.”

Ms. Merkel will also be keenly aware that German public opinion has turned against Greece and its radical left government.

HENNING MEYER  
EDITOR IN CHIEF, SOCIAL EUROPE

"Germany had to feel that red lines cannot be crossed, and it achieved

that," argued Mr. Kullas, who says that the chancellor is merely enforcing rules that all countries have agreed to adhere to. Ms. Merkel knows that Germans do not want to see the euro zone turn into a so-called "transfer union," in which richer countries pay for poorer ones, he said.

However, critics say that Ms. Merkel has followed rather than led public opinion on Greece.

"Merkel in the past has never done anything bold against the majority opinion of the population," said Sebastian Dullien, senior policy fellow at the European Council on Foreign Relations. "If you look back to a number of decisions, including the phasing out of nuclear power and so on she has always had a very careful eye on public opinion."

By letting Mr. Schäuble take the lead on Greece, and failing to intervene when it was clear his relationship with Greece was increasingly fraught, she has allowed public opinion to harden even further.

"Because she has been silent for a long time, the public opinion has moved to the point where it would have been extremely difficult for her to just say, now we are becoming soft on Greece."

For Mr. Dullien, Ms. Merkel's deal is flawed. "It may appease some of the domestic critics especially in her own party but she hasn't provided real solutions."

"If it becomes clear that Greece is going deeper into recession because of this, and we are at the same position in two or three years, this will definitely not reflect well on Merkel."

Yet ultimately the thinking in Germany is likely to have been as much about sending a message to the rest of the euro zone.

Throughout the euro debt crisis which has seen Greece, Portugal and Ireland bailed out by its European partners, Germany has been at the forefront of those pushing for austerity and reform in exchange for loans. Yet, Ms. Merkel had managed to present this tough stance as something that was essential for these countries' paths to recovery.

Increasingly, however, the German stance on Greece, spearheaded by the country's gruff finance minister, Mr. Schäuble, is being regarded as an obstacle to finding solutions that really could help the Greeks find a way back to growth.

Many economists are already openly questioning whether the new program, with its strict conditionality and demands for strict budget discipline, can help Greece recover.

Certainly Germany was not the only country that was regarded as hardline at the weekend's summit. Finland was if anything even more reluctant to let Greece stay, with its euroskeptic True Finns party even threatening to pull out of government if the agreement was too soft on Athens. The Baltic States and the Netherlands also shared Mr. Schäuble's and Ms. Merkel's uncompromising stance.

Yet, the stance also risks putting the Franco-German alliance at the heart of Europe at risk. France emerged, along with Italy, as the champion for Greece to stay in the euro zone come what may.

By acting so tough on Greece, to the point of seriously risking a Grexit, she may have caused damage to Germany's standing not only with France but with many other countries.

"The perception is that Germany is trying to push its own interests and not the interests of the European Union," said Mr. Dullien. "And this will probably have an effect on her wider foreign policy standing."

There is now a palpable lack of trust not just between Greece and the rest, but throughout the euro zone, particularly after such an acrimonious weekend, which put paid to the idea that the European system is one built on consensus and compromise. And that is ultimately damaging to Germany.

"There is a very significant amount of damage being done to trust in German politics," Mr. Meyer said. "There are absolutely no hallmarks of compromise and partnership that have characterized German politics in the European Union ever since the end of the Second World War."

*[Siobhán Dowling](#) covers German politics for Handelsblatt Global Edition.  
To contact the author: [dowling@handelsblatt.com](mailto:dowling@handelsblatt.com)*

READ THIS ARTICLE ONLINE:  
<https://global.handelsblatt.com/edition/218/ressort/politics/article/a-pyrrhic-victory-for-madame-europe>