

Nothing Sexier Than the Status Quo: Germany's "Merkel Effect"

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The Hofbräuhauses were packed to capacity this past weekend, as Germans congregated en masse in anticipation, as Bayern Munich joined Borussia Dortmund at the top of the Bundesliga, thanks to a 4-0 route over Schalke Saturday evening.

Yes, Germans seem totally uninterested in a number of major issues, like the NSA wiretapping German ministers, or war in Syria, but will talk you under the wooden table at the local Hofbräu over Angela Merkel's shocking German flag 'nationalist' necklace. More on that later.

Elsewhere, as hung over Germans gradually loosened their mortgage grip from their half empty steins Sunday morning, **Angela Merkel** won her third consecutive term in German elections. Merkel won by an absolute majority, and vowed that *she* would deliver more "successful years for Germany".

Once again, she has retained her tiara as the *Belle de Jour* of Teutonic politics. From Strasbourg to Berlin, she still evokes subtle excitement and a sexy danger at cocktail parties and economic forums. So what's her secret, and what makes Ms. Merkel to defacto figurehead of the new Germany?



READ IT IN THE POLLS

Angela Merkel became Europe's most popular leader by telling Germans they *don't need to change* (anything), that their energy security was *guaranteed*, the economy was *powerful* (at least for car exports) and that they were shielded from the stressful *Club Med debt* and deficit crisis that has torn southern Europe apart from the wealthy north. No pain, and lots of political gain for Merkel.

But as Mrs. Merkel heads into her third term as Germany's supreme chancellor, and despite the poll findings there are headwinds for her style of no-worries governance. Warning calls from her previous most-loyal business community are rising, saying she has to move more quickly to confront simmering problems, and must then be able to overturn the ship of state and endanger German prosperity.

Floating high but for how long?

AP reported this week: "We're living on yesterday's reserves," says Dieter Schweer, an executive at the Federation of German Industries, an industry group usually allied with Ms.

Merkel's CDU party.

The problems have no problems being listed. German energy costs are high and will go on rising, unless the **Energiewende** plan is cut back and its goals pushed further into the future. Infrastructure costs have soared – from roads and water supply to education, health and power grids – but spending has been cut back to fund a consumer prosperity bubble. As a result the country has worn out roads, a power grid system able to black out the country on an increasing basis, gaps in health care and education that continually widen, and other needs – that can only be met by more spending.

Meanwhile, the economy is healthy as measured by Germany's trade surplus and official jobless totals but is dangerously dependent on car production and exports. Hoped-for new industries linked to the energy transition plan have shrunk, been cut back, or plunged into bankruptcy and company wind-ups as electricity feed-in tariffs and other subsidies were gingerly cut back by Merkel's government, and competition from China blunted German ambitions to be an export giant in the renewable energy industry. Strip out car making, and Germany has a very unhealthy economy.

FEAR OF THE FUTURE

Mrs Merkel is however a skilled politician, and she expertly read the German mood during her 8 years in power – to which she has now added another four years as Chancellor. Widely seen as the most powerful politician, with the surest national support in the European Union, she above all, delivered Germans what they want: *stability and the status quo*.

Merkel knew that the endless circus of “national economic reform”, meaning higher taxes and less public services all across Europe was something Germans had a visceral opposition to. She also spelled out this strategy to her party and its junior coalition partner, the FDP, which ignored her advice, and mired itself in human rights and lifestyle issues – such as **de-criminalizing pedophilia**. The voters' sanction was rapid, with the FDP losing voter support in every election held since 2010. In recent weeks the FDP has continued its losing streak, with major defections of leading party members to other parties, such as AFD, or Alternatives For Germany.

Not rocking the boat and floating high on past prosperity has been Merkel's ticket to power, which she has polished in her frequent party conference speeches and media statements, where she reassures all Germans that she will keep her promise to defend Germany's prosperous stability amid the eurozone turmoil, and will use her power to prevent the collapse of the euro – despite many Germans dreaming of a return to the **Deutschmark**. She tells her listeners that “Germany is doing well” but will be stern with her demands for painful overhauls elsewhere in Club Med Europe. In the the event of another round of bailouts for the “poor” south, it's possible that German voters may begin to drift from their learned love of *Euroland*.

Perhaps there is something after all, in Merkel's provocative and subtly exciting black, orange and yellow necklace *nationalisté*?



Despite opinion polls close to the election showing an erosion of her support, more than two-thirds of Germans approved of her work, with over half say she is the reason why the

country is thriving despite the euro crisis, and even voters for opposition parties respond to polls about Merkel by saying she ensures stability. Unfortunately however, after her win this past Sunday, Merkel will herself have to bring in painful reforms. The longer she holds back, *the more painful they will be.*

One change of German policy is however already clear – and will amplify. Inside the country, its economy is perceived as robust and able to remain strong, because Germany has anchored Europe against falling back into recession, but this policy has its limits. Taxpayers are less willing to continue support for crisis-stricken countries, and despite past and recent spending to support the eurozone, German export markets in Europe, not only in southern Europe, are stagnant or shrinking. This means a change towards helping Germany's domestic markets, a retreat from the previous "Europeanist" policy.

GERMAN ISOLATIONISM

Alongside a diffuse fear of the future which is spread across the population, Germans are also reassured by Merkel's continuing, sometimes outspoken refusal to take part in "military adventures" such as the 2011 Libya war, and the attempted military strikes against Syria in 2013.

German economic dependence on exports to its European "internal market" reflected a previous form of economic isolationism, but as Merkel starts a third-term as Chancellor, Germany may progressively move towards another type of isolationism – a retreat from Europe. This dangles the prospect of reheated economic relations with Russia and West Asia.

Fuel and Energy Poverty

Demands for national security, in Germany, were also translated by Merkel as the Energiewende energy plan – but for business and industrial users this leaves them paying about 30% more for a kilowatt-hour of electricity than the 2012 euro-zone average of 11.9 euro cents (15.5 US cents). While some German industries are able to receive major rebates and subsidies for electricity, others are not, generating an increasing number of company delocalization plans and a retreat from Germany. The country's struggling banks have not yet recovered from the 2008 crisis. In some cases decades of "benign neglect" of infrastructures in which Germany investment trailed developed-world averages has caused growing economic pain. The country's rigid labor laws and a population declining by about 150 000 persons per year due to rapid ageing make for sure and certain economic problems in the future. The national Institute for Economic Research said in an August report that Germany's impressive-looking financial position "is also a deceptive one."

The institute's analysis of under-investment, only in roads and transport infrastructure, ranked this at about 10 billion euros a year, about \$13.5 billion. A failure to increase investment in areas like transport, power grids, health and education, the institute said, could reduce Germany's annual growth by 2017 to 1% or less from present rates near 1.6% per year.

Ms. Merkel has promised the impossible – balanced budgets – but knows that pursuing change more aggressively could undermine the cornerstone of her stability theme, and increase the national mood of isolationism. Making her post-election tasks easier – not more difficult – the rapid erosion, even electoral disappearance of the FDP, and the very limited

voter base for AFD means that if she holds coalition talks with the main opposition Social Democrats, her potential for welding a Grand Coalition is high. The SPD has criticized Merkel for moving too slowly on improving infrastructures, education and health, and changing labor laws.

With the Greens and SPD, their aversion to “bold strokes” of the type bludgeoned by the UK’s Mrs Thatcher, which when attempted by Merkel always caused her CDU to lose votes, make it possible for her to launch a little-by-little but real reform process, post-election, if she wins. Mrs. Merkel has cultivated her appeal across traditional party lines, building ties with labor unions, ecology and environment NGOs and womens’ rights associations, her **post-Fukushima** energy policy – totally abandoning nuclear power – garners her widespread cross party support despite its costs.

Observers should know by now that Germany will certainly not change overnight – but subtle and powerful long-term forces of change will start operating. Summarised in a single comment by Germans polled before the election, cited by newswires, Merkel is seen as “the right woman at the right place and right time” – – because “the others would probably be worse.”

Oh, the lesser of two evils. *Not that old chestnut again.*

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