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Working Paper No. 1010

Reflections on Angela Merkel's Career as Chancellor of Germany and the Greek Financial Odyssey

by

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ABSTRACT

Angela Merkel is the second-longest-serving chancellor of modern Germany, with more than 16 years in office. During her tenure there were many years of economic stability, but there were also years of domestic, EU, and geopolitical tensions. Merkel inherited an economy that was recovering after the launching of probusiness policies known as the Hartz I IV Reforms, introduced by the government of the previous chancellor, Gerhard Schröder. Chancellor Merkel was criticized for mishandling the eurocrisis, as she failed to declare support for the financially distressed eurozone countries. Instead she convinced EU officials and country leaders to adopt a contractionary fiscal policy in the midst of a recession. As a result of the austerity measures, Merkel became popular among the German taxpayers and voters. This triggered credit rating agencies to downgrade the government bonds of the periphery eurozone countries and investors to sell these bonds, driving their prices to zero. Periphery eurozone countries came close to bankruptcy but were jointly bailed out by the EU and the IMF, though this prolonged the crisis. As a result of the imposed austerity, which was unnecessary and avoidable, millions of people became unemployed and experienced poverty, loss of dignity, and humiliation and Greece was the country hit hardest. For Merkel, placing national interests above EU interests was the most important mistake in her career; it took, however, a bigger crisis (i.e., the COVID-19 pandemic), to convince Merkel to place EU interests above national interests.

KEYWORDS: Angela Merkel; Eurocrisis; Austerity; COVID-19; Greece

JEL CLASSIFICATIONS: F30; N10; N14; 052; P16

INTRODUCTION: EUROPEAN INTEGRATION

The German federal elections on September 26, 2021 marked the end of Chancellor Angela Merkel's fourth term in office.¹ Only two chancellors in the history of the German state served longer than Merkel: Otto Von Bismarck and Helmut Kohl. The latter was Merkel's predecessor in the Christian Democratic Party (CDU). Both of these long-serving chancellors accomplished substantial breakthroughs. The first united the numerous German states in 1871, forming the foundation of the modern German state. The second contributed to the unification of a divided Germany after the collapse of the Berlin Wall. Kohl also helped replace the deutschmark with the euro, assuring the European course of a unified Germany.

Chancellor Merkel inherited a state with a strong democratic tradition, but its economy had been undergoing a severe and prolonged recession. This recession had spread to most European countries starting in the early 1970s, triggered by two oil crises, aging populations, rigid labor markets, and overregulation. The EU leaders, who were concerned that the EU was lagging behind the United States and Japan in technology, responded with the Lisbon Agenda, which consisted of several programs aimed at transforming the European Union into the most competitive economy in the world. These programs included labor reforms, such as liberalization of protected labor markets and reduction in wages and pensions. The Lisbon Agenda promoted several other probusiness programs aimed at improving business innovation and international competitiveness. The EU member states also agreed to pursue fiscal stability.

The reunification of the country, spearheaded by Chancellor Kohl after the collapse of the Berlin Wall, shocked Germany's economy. This shock was a consequence of Chancellor Kohl's expansive fiscal policy that attempted to bridge the standards of living between the two Germanys. Such a program was necessary because East Germany, although the most industrialized and developed state among the Eastern European countries, was still lagging in terms of technology and economic development in comparison to West Germany (Parnell 1999).

¹ Due to an inconclusive outcome in these elections, Merkel served as a caretaker government until a new coalition emerged with Olaf Scholz, a social democrat, sworn in as the new chancellor on December 8, 2021.

In the early 1990s, the German economy revealed major weaknesses. High labor costs and market rigidities transformed Germany into an unattractive destination for investors. As a result, German companies began moving out of the country and investing abroad. To cope with high unemployment, the Social Democratic Party (SPD), which was then in a coalition government with the Green Party, introduced the Hartz I-IV Reforms during the 2003–5 period (Jacobi and Klu 2006).

Many of the proposed Hartz I-IV Reforms introduced by the coalition government of Chancellor Gerhard Schröder became laws in Germany and were in line with the Lisbon Agenda. Germany was able to reduce unemployment, but largely did so by replacing full-time, well-paid jobs with precarious employment. A variety of types of new employment were introduced during this period.² This type of employment became widespread in Germany, helping German firms reduce labor costs and become internationally competitive (Evans and Gibb 2009).

This approach led to a quick recovery as German exports boomed; however, it took place at the expense of millions of German workers who became impoverished since they were paid very low wages and received fewer benefits and lower pensions. It was a surprise that the new labor policies and laws launched by the Hartz I-IV Reforms were introduced by the SPD–Green coalition government because these two parties had almost always pursued prolabor policies.³ As a result, Angela Merkel became the next chancellor of Germany, an office that she tightly held for the next 16 years (four consecutive terms) from 2005–21. At age 51, Merkel was the first woman and first non-Catholic Eastern German to become chancellor. She was also the youngest to ever hold the prestigious and powerful job (Petrikowski 2021).

Kohl chose Merkel as his successor in the CDU. She has a PhD in physics and grew up in East Germany under an autocratic regime where the secret police (Stasi) spied on most people and relied on informants. Such an environment had an impact on Merkel, who evolved to be distrustful. She seldom took initiative in her discussions and dealings with the other EU country

² Some types of employment include fixed-term contracts, agency contracts, temporary work, and so forth.

³ German voters, nevertheless, punished the SPD, which in the next national elections on September 2005, had its worst ever performance in its history.

leaders and was very cautious. In this way, the European Union ended up being led by someone who grew up with a fear and hesitancy, thus unable to express her views assertively (Petriowski 2021).

MERKEL'S APPROACH TO THE EUROPEAN INTEGRATION

Merkel's second term in office coincided with the European sovereign debt crisis (eurocrisis). As the leader of the largest and strongest economy in the European Union, Merkel was expected to play a constructive leading role in resolving the European sovereign debt crisis. Her response, however, was a disappointment, as she lacked a commitment to the European cause shared by former chancellors, especially Kohl. Many in the media pointed to Merkel's inaction as a reason behind the prolonged eurocrisis.

The popular German press was quick to summarize Merkel's handling of the eurocrisis with four metaphors: the Swabian housewife, salami tactics, the infected leg theory, and driving by sight. The first metaphor became popular when Merkel was asked to comment on the collapse of the Lehman Brothers investment bank in the United States, an event that triggered the US subprime mortgage crisis. She responded that they should have asked the Swabian housewife, the prudent housewife from Swabia, because she knows how to make ends meet.⁴ "Salami tactics" became a popular expression because it captured Merkel's stingy approach to the new bailout funds. The contributions, according to Merkel, were going to be smaller and smaller, resembling the thinner and thinner salami slices one cuts to economize spending on food (*The Economist* 2014). The third metaphor pertains to the proposed solution to the eurocrisis by some of the most militant members of the CDU party. According to this CDU group, the solution to the eurocrisis was very simple, kick Greece out of the euro. Greece was seen as the problematic country that had to be "sacrificed" in the same manner as an infected leg had to be sacrificed to prevent death, if the person had gangrene. The last metaphor, "driving by sight," compares the cautious handling of the eurocrisis to German drivers during the frequent foggy weather in the country.

⁴ Swabia is a region in southwestern Germany,

A few analysts criticized Merkel for not attempting to resolve the crisis because Germany was benefiting from the eurocrisis. First, Germany was generating excessive trade surpluses; second, since Germany was considered a safe-haven country, they became the recipient of massive capital flows (Zestos, Jiang, and Painter 2021). Investors preferred Germany, thus, capital from the periphery eurozone countries fled to Germany. Therefore, capital was flowing the wrong direction—toward the country that needed capital the least and away from the countries which needed financial capital the most (Allesandrini et al. 2012). This was a beggar-thy-neighbor policy. During the entire period of the eurocrisis, Merkel remained popular with German and northern eurozone voters (taxpayers) by being an astute proponent of austerity. She preached against easily approved bailouts to overindebted eurozone countries. This policy harmed the financially distressed EMU members during a time when they needed support (Bibow 2017).

Chancellor Merkel's stance on austerity helped her maintain the unity of her coalition governments, keeping several extreme right-wing CDU and CSU party members at bay. Numerous politicians in Merkel's party or in the coalition parties were thriving by criticizing the bailout programs and the bailout recipient countries. They did this either because they believed that austerity was the solution to the eurocrisis, or because they were simply populist politicians. The most notorious of these politicians was Wolfgang Schäuble, a lawyer and Merkel's finance minister, and unsuccessful competitor for the leadership of the CDU. Schäuble was the most important proponent of austerity and driving force for austerity during the eurocrisis. Austerity programs, however, were the wrong policy, as they constituted the wrong medicine, similar to recommending fasting to a starving person. Austerity was the application of the unorthodox contractionary fiscal policy in the midst of a recession. However, neither Schäuble nor Merkel had any formal education in economics and finance, the area in which they were making decisions affecting millions of people, sending them into unemployment and poverty.

In 2012, Germany and her northern allies, the Netherlands and Finland, persuaded almost all the other EU states to impose more fiscal discipline upon themselves. This was the same year that they signed the Fiscal Compact Treaty, thus giving the authority to the EU Commission to approve the national budgets and even impose penalties to violators. This Fiscal Compact Treaty

required eurozone member countries to balance their annual budgets. Such measures deteriorated economic conditions everywhere in the eurozone (Zestos 2016).

A program that Merkel strongly campaigned for and endorsed is known as the Private Sector Involvement (PSI). According to this program, any eurozone country that receives a bailout must also adopt the PSI program that requires a “haircut” (i.e., loss on the nominal value of the bonds) for the owners of bonds of bailed-out countries. Merkel’s motive was the protection of the German taxpayers (voters) by shifting the burden to the few bond investors who, according to her, should be more careful where they invest their money. Foreigners who held Greek bonds received a large haircut when the second bailout to Greece was agreed upon, amounting to 52.5 percent (€105 billion) of the €200 billion of Greek public debt held by foreigners.

Greek bond owners agreed to accept a major restructuring on October 27, 2011. The PSI program, however, was a huge disaster, as it not only convinced Greek bond holders to sell their bonds and caused panic, but it induced the bond holders in all periphery eurozone members to also quickly sell their bonds due to contagion. Consequently, the bonds in these countries lost value and rapidly were transformed to junk bonds. This is the reason the eurocrisis is also called the “European sovereign debt crisis.”

The last country to receive a bailout was the Republic of Cyprus. Although the amount of the bailout (€9 billion) was very small in relation to bailout of the other countries, it was offered under the most severe conditions. The bailout was offered on the condition that bank depositors accept a haircut on their deposits. Merkel wanted to punish bank depositors because it was believed that a substantial share of the deposits belonged to Russian oligarchs who were suspected of money laundering. Such a policy created much uncertainty for bank depositors everywhere in the world because banks could no longer be considered safe places for their deposits.

ADMIRATION AND CRITICISM OF GERMANY AND THE CHANCELLOR

Since Germany's economy proved to be resilient during the eurocrisis, Germany gained the respect and admiration of the EU country leaders. This admiration and respect were extended to the chancellor as well. As the crisis escalated, Merkel, intervened only to block or postpone any proposals that would have required an additional burden on the German and eurozone taxpayers. This was the most harmful of Merkel's actions when handling the crisis

According to William Paterson (2011), a UK political science professor, the first misstep taken by Merkel was "when she recommended austerity for Greece when it was very clear that Greece needed EU support." Early support for Greece could have calmed the markets and ended speculative attacks on Greek sovereigns. It would also have ended investors' panic and the eurocrisis itself. Paterson stated that Merkel lacked the required commitment and dedication for the European project. He claimed that Merkel "began taking Germany toward the center of the stage to become a reluctant hegemon of the EU." This is indeed a very serious criticism of the chancellor.

At an EU Summit held June 28–29, 2012, after the euro crisis began, EU leaders discussed the possibility of the formation of a fiscal union and the issuance of common eurobonds as a way to cope with the crisis. Two days prior, Merkel stated that "as long as I live, mutualization of public debt will not take place" (Severin and Bremer 2012). In this way, the chancellor killed the possibility of jointly issued eurobonds by the EU/eurozone member countries and the hope of restoring financial stability in the eurozone. Jean-Claude Juncker, former prime minister of Luxembourg and president of the EU Commission (2014–19), characterized the rejection of eurobonds as un-European (European Center of North Carolina 2012).

Other German leaders, however, disagreed with Merkel's approach to resolving the eurocrisis. For example, two Social Democrat Ministers in Merkel's 2005–9 coalition government, Frank-Walter Steinmeier⁵ and finance minister Peer Steinbrück, called for an end to Merkel's cautious

⁵ Present president of Germany who began serving his second term in 2022.

“wait and see” approach.⁶ To fully understand the eurocrisis, one must have a good sense of the German public perception of the bailouts and the bailout countries. The eurocrisis was triggered when the newly elected prime minister of Greece, George Papandreou, revealed to the EU Commission that the previous government purposely misreported the true 2009 public deficit. The eurocrisis was triggered by this revelation, but it was the German news media that directly contributed to the escalation of the crisis. After the Greek revelation, the German news media began a long and vitriolic campaign against Greece. The German press, including respected newspapers and magazines, along with the tabloids, gave the public the impression that Greece was the sole cause of the eurocrisis (Bickes et al. 2014).

The negative press campaign against Greece became known as “Greek bashing.” This began in February 2010 when the German magazine, *Focus*, published a heavily biased article against Greece. The magazine portrayed the Greek goddess Aphrodite (Venus) in a digitally manipulated photo giving everyone the middle finger. The *Focus* attack was followed by other publications in reputable magazines and newspapers. Included among them was the largest newspaper in circulation, *Bild*, which portrayed Greeks as lazy and pocketing the taxes of the hardworking Germans. Such negative publicity about Greece motivated many populist politicians to routinely deliver speeches demanding that Greece be expelled from the eurozone (Grexit). The Greek bashing lasted about two years until other countries (Ireland, Portugal, Italy, Spain, and Cyprus) also experienced financial turmoil. In 2012, the German Council of Economic Experts, however, expressed the view that it could be possible for a single small country to be solely responsible for the eurocrisis. They recognized that the EMU was incomplete as introduced, with several structural deficiencies that had to be addressed and corrected.

The situation, however, was becoming difficult for Greece. Thus, Merkel found that she had to decide whether to support Greek membership in the eurozone or to support its expulsion. When economic conditions deteriorated in Greece, Merkel sought advice from the German ECB executive board member, Jörg Assmusen, and the president of the German central bank (the

⁶ They openly expressed their opposition with a letter to the *Financial Times* on December, 12 2010. Of course a stronger and more effective protest would had been if both of them had resigned from their important posts in Merkel’s government.

Bundesbank), Jens Weidman. When the two economists responded that the effects of Greece exiting the EMU on Germany and the other eurozone members were uncertain, Merkel decided to support Greece's membership. It is clear that the decision to support Greece had much to do with protecting Germany by precluding the possibility of contagion. Soon after that, Greek Prime Minister Antonis Samaras was invited to visit Berlin; the chancellor, in order to confirm her support to Greece, visited Athens.

On Sunday, June 29, 2014, the 64th Annual Lindau Nobel Laureate conference was held on the picturesque Lindau Island, located in Lake Constance in southern Germany. Merkel, who attended the conference, spoke there and rhetorically asked whether her economists employed the incorrect models or whether she was advised by the wrong economists. Then she challenged the economists to create new measures of good life—this would help ordinary citizens, unlike other irrelevant statistics that were often reported. Joseph Stiglitz, a Nobel laureate who was in the audience, kept smiling, as he seemed to be pleased with the chancellor's request (Fuchs 2014).

In an interview with *Deutsche Welle*, Stiglitz claimed that markets are not always efficient and also that many economists consider income inequality unimportant. Merkel's economists increased income inequality to reduce unemployment, thus harming people's lives. All Nobel laureates who participated in the conference criticized austerity programs and the EU country leaders for underestimating how recessionary the austerity programs were.⁷ Such views, however, did not influence Merkel, because her economic policies were based on dogma and not on pragmatism. Therefore, the well-being of millions of low-paid German workers was unimportant (Zestos 2016; Evans-Prichard 2014). Critics of austerity and Merkel include the late Manolis Glezos, a Greek hero, politician, and a former member of the European Parliament who, in 1941 at the age of 18, tore down the swastika from the Acropolis, replacing it with a Greek flag. Other critics include heads of international organizations, such as the former president of the EU Commission, Romano Prodi, and many politicians, journalists, and academics.

⁷ Austerity combined with procyclical policies employed prior to the crisis followed by Greece and other periphery countries were responsible for the prolonging the eurocrisis.

SARKOZI AND MERKEL FORCE TWO EU LEADERS TO RESIGN, CORNERING THE CHANCELLOR

A critical moment in deciding whether Greece would remain in the EMU occurred at a meeting in Cannes, France, prior to the G20 Summit on November 2, 2011. Greece was confronted with social upheaval for several months, as demonstrations and strikes became the normal situation and economic conditions in Greece kept drastically deteriorating. Unemployment, for example, had reached depression levels, close to 25 percent; similarly real GDP was reduced by 25 percent, and wages and pensions were reduced to exceptionally low levels as well.

Upon his return from the EU Summit in Brussels, where the second bailout program was negotiated and agreed upon, Greek Prime Minister George Papandreou announced a referendum that would allow the Greek voters to approve or reject the second bailout on October 31, 2011. The Greek prime minister, knowing the situation in Greece, chose to seek a mandate from the Greek people to be able to successfully implement the reforms. If approved, this entailed great hardships for the majority of the society. Such a decision would have given the Greek people an opportunity to accept or reject the second bailout, which included a 52.5 percent reduction (haircut) of the Greek public debt.

The information about the referendum spread around the European Union, causing major concerns. EU leaders were worried that the Greek voters would reject the bailout, as they could not tolerate the additional austerity that was going to be imposed on them as a result of the new bailout. After some communication between French President Nicholas Sarkozy, Chancellor Merkel, and the president of the EU Commission, José Manuel Barroso, it was agreed that Prime Minister Papandreou would be invited to the meeting prior to the G-20 Summit.⁸

Everyone at the meeting tried to convince Papandreou that a referendum was a very bad idea. It was clear to all participants that a negative outcome to the Greek referendum could have meant

⁸ Sarkozy also invited the managing director of the IMF, Christine Lagarde, the president of the European Council, Herman Van Rompuy, the president of the EU Commission, José Manuel Barroso, and the chairman of the Eurogroup (ECOFIN), Jean Claude Juncker.

the end of the EMU. However, it became clear that the intervention of the two largest EU country leaders was an unorthodox and brutal move that made a few people in the room uncomfortable, as the two leaders went beyond their authority.

How could the leaders of the two largest economies in the EU dictate policy to an elected leader of a small EU country? It is obvious that Merkel and Sarkozy were correct that a referendum was highly risky and had to be prevented by all means. But this could have easily been prevented at the onset of the crisis if the EU leaders and officials declared solidarity instead of austerity.⁹ In this case, it is highly likely, according to several analysts, that not even a single euro would have to be wasted if the EU had not pursued the nonsensical economic policy of austerity and fiscal discipline in the midst of a deep recession. Nonetheless, it is difficult to criticize the two European leaders and the president of the EU Commission, Manuel Barroso, for their unwillingness to take a chance and gamble on the future of the European Union/eurozone. Such an approach, however, is damaging to the EU's reputation as a democratic union of independent countries.

Even before the meeting in Cannes had started, Barroso was preparing to form a new coalition government in Greece, headed by a nonelected eurocrat. Upon his return to Athens, Papandreou was forced to resign as prime minister and as the leader of his party, the Panhellenic Socialist Movement (PASOK).¹⁰ In the meanwhile, the eurocrat who replaced Papandreou was Loukas Papademos, the widely respected vice president of the ECB, whose eight-year term had expired about a year prior.

As interest rates kept rising in Italy, exceeding 7 percent, it was clear that something had to be done to prevent Italy's bankruptcy. At that time, the Italian public debt was over €2 trillion, and it would have been impossible for Italy to be bailed out. As a result, another elected politician followed Papandreou, namely Silvio Berlusconi, the prime minister of Italy. He was replaced by

⁹ Such a decision would have served the long-term interest of not only Greece and the periphery EU countries but the entire European Union and every country especially Germany, the country that received more benefits than any other country from its membership.

¹⁰ He was replaced as the leader of PASOK by foreign minister, Evangelos Venizelos, who supported the bailout.

another eurocrat, Mario Monti, the reputable former EU Commissioner for Competition. The end result of the Cannes meeting was the dumping of two elected EU country leaders that were merely replaced with two eurocrats. This was something new in the European political decision-making process.

Chancellor Merkel was critical of overindebted countries for being reckless prior to and during the crisis. Therefore, according to Merkel, those countries should be responsible for their public debt. Nonetheless a British newspaper (*The Guardian*) was critical of Merkel for not repaying two forced loans that the occupying Nazi regime extracted from the central bank of Greece amid the occupation during World War II (Inman 2013).

On November 2, 2011, the same group of leaders met again at 9:30 that evening, but without the Greek delegation. This time, Sarkozy brought in US President Barack Obama who was asked to preside over the meeting. Sarkozy tried to convince Merkel to support an increase in the Eurozone Rescue Fund, so eurozone countries would be in a better position to protect the EMU and, thus, help the eurozone's financially distressed members. It was mentioned that the US Federal Reserve purchased massive amounts of government and private securities, and the US federal government had launched two massive fiscal programs to quickly pull the US economy out of the Great Recession.¹¹

The chancellor became defensive when it came to monetary policy and explained she could not follow the Fed, as monetary policy in Germany is exclusively exercised by the Bundesbank. She explained that this is necessary to avoid hyperinflations similar to the one that took place between World War I and World War II, which was partially responsible for the collapse of the short-lived democratic regime, the Weimar Republic. The collapse of this regime opened the way to the tyranny of Nazism and Adolf Hitler. She explained that the Bundesbank was forced to create hyperinflation to meet the extraordinary demands of the United States, France, and United Kingdom for the payments of World War I reparations. Merkel could not see that the punishment of Germany by the allies was similar to the economic punishment (austerity) on Greece and the

¹¹ Merkel did not elaborate on the suggestion to increase the rescue fund, perhaps because she was always a big proponent of austerity and was committed to protecting the taxpayers.

periphery eurozone countries by the European Union. For example, as a result of the imposed austerity on Greece, Golden Dawn, a neo-Nazi party established in Greece, received 7 percent of the popular vote and had representation in the European parliament. This constituted a great embarrassment for Greece, the country where democracy was born.

During the November 2, 2011 meeting, Obama and Sarkozy proposed a program that would create a new rescue fund to assist financially distressed countries by pulling together their special drawing rights (SDRs) held at the IMF.¹² The news about the possible use of the SDRs spread quickly. The president of the Bundesbank was informed and called the chancellor to express his opposition to such a program. He stated that the SDRs are part of the country's international reserves and, as such, are managed by the Bundesbank. Obama insisted that Germany participate in the SDR program. At this point Merkel broke down in tears. She replied with tears in her eyes, "That is not fair" as she could not decide for the Bundesbank (Spiegel 2014). When the first author of this paper was informed about these events from the *Financial Times* articles, he initially thought that the chancellor was frustrated and sad. He believed this was due to the fact that the chancellor could not help all the people who were suffering as a result of the imposed austerity and contractionary monetary and fiscal policies. It now appears that the chancellor was upset rather than sad because everyone in the room continued to press Germany on issues that concerned other countries.¹³

The president of the central bank of Austria, Ewald Nowotny, warned the participants of a 2012 conference held in Vienna against a "single-minded austerity policy." (Torry and Feher 2012) The same type of austerity was imposed by the victors of World War I on Germany, and this created such high unemployment that led to the rise of Nazism, the collapse of the Weimar Republic, and to World War II. Nowotny pointed out that the European Union was facing serious problems because of the austerity imposed on highly indebted eurozone countries as punishment for their past profligacy and he thought that Germany would become isolated by pursuing

¹² SDR is an international reserve currency created by the IMF in 1969. It is a basket currency presently consisting of five currencies: the US dollar, the euro, the Japanese yen, the British pound, and the Chinese renminbi.

¹³ This section, regarding the Nov 2, 2011 pre-summit Cannes meeting, draws on the *Financial Times* article by Peter Spiegel (2014), "How the euro was saved."

austerity.¹⁴ However, Germany prevailed by convincing the majority of the eurozone members that austerity was the preferred or imposed policy. Such policies were responsible for increasing the risk of the breakup of the EMU.

It is clear that Germany did not learn from its own history. Although Merkel was in the center of the upheaval, she did not understand or want to understand the severity of the economic crisis. This is because she probably could not see beyond her country, and she did not pursue policies beyond the narrowly defined party interests. Most eurozone leaders must be also criticized for their blind and unexplained submissiveness to Merkel. It is hard to understand how Merkel convinced the majority of the eurozone leaders that overindebted countries or countries that were not growing could not voice their opinion.

THE GREEK SAGA CONTINUES

The Cannes meetings left no doubt that historical and institutional constraints in Germany rendered monetary policy in the EMU impotent. In this way, many of the beneficial effects of monetary policy that are available to all independent countries are denied to EMU members. This seemed to be extremely important and obvious during the Cannes meetings, as the ten-year bond yields in Italy came close to 7.5 percent and the Greek interest rates shot up to 33 percent. Such developments made Grexit highly likely.

Obama observed that the correct policy for the ECB should be similar to US monetary policy during the 2007–9 subprime mortgage crisis. But he quickly realized that this was not possible and, as a result, the crisis could not be resolved. Thus, the astute statesman commented that either Germany had to change its policies to be able to help EMU member countries cope with the crisis or it had to allow countries to resolve the problems on their own. The latter could have

¹⁴ Nowotney, however, was mistaken, as Germany convinced eurozone countries to pursue austerity; see Torry and Feher (2012)

meant that either Germany, with a few of her own close northern allies, would form their own northern monetary union or that Germany would readopt its own deutschmark.¹⁵

The Greek public debt crisis flared up again in the summer of 2015 due to deteriorating economic conditions. On June 30, 2015, Greece defaulted on a €1.6 billion payment to the IMF. To prevent further economic deterioration, Greece imposed capital controls allowing Greek residents only minimal access to their bank accounts through ATMs. In addition, imposition of very strict austerity measures on Greece continued for several years. In response, Greek voters elected the left-wing Syriza party that had promised to tear apart the memorandum of understanding (bailout agreement). Therefore, Greek voters showed their strong support for Syriza twice: once when it was first elected on January 2015 and again when Prime Minister Tsipras asked their support in a referendum to not approve the third bailout of €86 billion.

After about six months of negotiations with the EU country leaders, Tsipras pulled out of the negotiations and asked the voters to decide in a referendum on July 6, 2015 if they would accept the harsh terms imposed by the EU/IMF. The Greek voters, exhausted from so many months of strict austerity, strongly supported the government, with 61 percent voting “no” against the bailout proposal.

Thus, Tsipras, the leader of Syriza and prime minister of Greece, did what Merkel and Sarkozy did not allow Prime Minister Papandreou to do. Despite the strong support for the Greek government by the Greek people, EU country leaders became stricter on Greece and imposed even harsher austerity with the persuasion of the German Finance Minister Schäuble. This indicated how little democracy was respected in the European Union. Germany, with its vehement anti-Greek finance minister convinced all but three eurozone finance ministers to expel Greece from the eurozone in the ECOFIN meeting the day prior to the Brussels Summit on July 12, 2015. It was the French, Italian, and the Cypriot finance ministers who opposed Schäuble. The German finance minister was very determined to expel Greece from the eurozone and give

¹⁵ This might have been the case because German leaders such as Merkel could not see the long-term benefits of a wider European economic monetary union (Zestos and Simons 2018).

the country a temporary “time out” from the euro, as he used to frequently say. Schäuble was vindictive toward Greece because the Greek government violated the fiscal rules.¹⁶

Those who remained in Greece suffered the most and many lost their homes in the most humiliating ways. The third bailout required more austerity from Greece, more privatization of public assets, and massive loan foreclosures on homes and other properties. Auctions of foreclosed homes were taking place in district civil courts every Wednesday. However, several groups opposed to this shameful practice started demonstrating and protesting in front of the courts, often disrupting the court process.

Sales of foreclosed homes were found to be necessary by the creditors to reduce bad bank loans. To avoid further disruption of the sale of foreclosed homes, the Syriza government ordered a web-based platform to make the process of foreclosing homes “easier” and more efficient. In 2016, the Syriza government introduced legal arrangements to allow the purchase of small defaulted loans and delinquent mortgages with international funds. Many were critical of the governing Syriza party, since it had promised the Greek voters it would tear apart the bailout agreement, and they considered such concessions by Syriza to be betrayal and humiliation.

In an interview with *Spiegel*, a German magazine, the Greek deputy minister of culture, Nikos Xydakis, saw the situation in Greece under the imposed bailouts similar to that under the Nazi occupation. Presently, Greece still suffers from German economic dominance, as Germany is its main creditor country: the building the deputy minister of culture’s office is located in belongs to a “fund” which was created to raise money to pay the bailout (Blome et al. 2015).

Schäuble would have had his way if it was not for French President Francois Hollande who told the European leaders at the summit the next day that Grexit was not an option¹⁷ (Ponthus and John 2015). As a result, Greece remained in the eurozone, and this meant increased and stricter

¹⁶ Nevertheless, those who were punished by the EU austerity measures were the poor people and the middle class, as the very rich moved out of the country to places like Berlin, Paris, London, and other cosmopolitan cities where they purchased and lived in very expensive apartments.

¹⁷ Hollande reached an agreement with Merkel over a working dinner at the Elysée Palace a week earlier that there would be no Grexit.

austerity measures to satisfy the demands of its international creditors. At the same time, Greece's eurozone "allies" who followed Germany ceased their vicious attacks temporarily against Greece. Hollande's intervention was a victory for both Greece and himself as, for first time, he proved that France was still relevant in forming EU policy. It was also a victory for many members of the French socialist party who supported Greece along with other progressive people in France, Italy, Cyprus, Germany, and other countries that were not influenced by the neoliberal ideology that spread in western Europe and other parts of the world.

THE FRENCH PRESIDENTIAL NATIONAL ELECTIONS: ANATOMY OF THE GERMAN ECONOMY

One day after his election on May 6, 2012, President Hollande visited Berlin to have his first encounter with Merkel. He carried a strong message from his socialist party in France, as well as from other EU countries who supported economic growth and employment as a top priority policy for the EU.¹⁸ Hollande was welcomed by the chancellor, who was pleased to meet him (Kulish and Erlanger 2012). However, the chancellor was not interested in the president's proposal for economic growth and employment, since this proposal required public spending, which goes over her red lines based on her party's economic dogma of austerity. Therefore, the results of the French presidential elections created false hope. The person who was interested in listening and praised Hollande was Sigmar Gabriel, the leader of the main opposition party (the SPD) who was very critical of Merkel's management of the crisis. He commented that Hollande's growth proposals fell on deaf ears as, indeed, Merkel showed no interest in the growth and employment proposal for the eurozone. The fact that Hollande was the elected leader of France, the other large EU country and the place where the idea of European integration was conceived and developed, did not make a difference for the chancellor (Kulish and Erlanger 2012).¹⁹

¹⁸ Although Hollande's airplane was struck by lightning at the departure, he still arrived in Berlin only one hour and a half late with a different aircraft.

¹⁹ The principle of fiscal discipline was so deeply rooted with Merkel and other Germans, especially in the CDU and CSU parties, that at one point they were planning to propose legislation to remove the voting rights in the EU institutions of those countries that are violating the fiscal rules.

Germany imposed economic policy and programs on other EU members whether or not the other EU leaders agreed. A few years ago, Polish Prime Minister Donald Tusk, later president of the European Council, asked Merkel: “Why do you foment division?” (Zestos 2016). Tusk was referring to the imposition of austerity measures despite the fact that several EU country leaders disagreed with this German approach. Although Merkel did not answer the question, a few months later, she had her way and the Fiscal Compact Treaty was signed by 25 EU countries. The German leadership and, especially Chancellor Merkel, should have known that economic dominance is merely another form of control and it can be as detrimental as actions imposed by the barrel of a gun. Like a gun, it kills people, albeit indirectly, by destroying their economies and increasing poverty, disease, suicide, and homelessness. This indeed happened in several periphery EU countries during the European sovereign debt crisis.

As the president of the European Council, Donald Tusk, stated a few years prior to the March 9, 2015 summit, Grexit was in no one’s interest, and he characterized the possibility of Greece leaving the EMU as: “The most dramatic chapter in the EU.” He went on to explain that there was more to Grexit than money and geopolitics: “Dignity and emotions were at stake as well.” He concluded that Grexit would be an “idiotic scenario.” Knowing the prolonged heated debates that followed, it is doubtful that many paid attention to the thoughtful words of the charismatic European statesman (Zestos 2016).

It is interesting to point out that German politicians and Chancellor Merkel failed to see what was observed and documented by professors and students from UK universities conducting field research during the crisis in Greece. Their extensive research in the area of hygiene examined the impact of slashed hospital budgets on both physical and mental diseases, and they found the reappearance of long-ago extinct diseases, publishing their research in academic journals and books during the eurocrisis (Stuckler and Basu 2013). The UK press was always present in Greece during the crisis as well and continued reporting on the country as it quickly became impoverished. Julianne Mendelsohn was one of the UK journalists who spent a lot of time in the field with the people who were affected during the crisis. She rejected the stereotype of “lazy Greeks” publicized by *Bild* and several other German newspapers and magazines. Mendelsohn found such accusations nonsensical because there were simply no jobs. The journalist met many

homeless and hungry, and she was struck by the sadness in the eyes of these people, especially “when they thought nobody was watching” (Mendelsohn 2013).

Germany became an insurmountable problem for the eurozone due to historical, economic, and political reasons. After the end of the World War II period, Germany was influenced by the economic philosophy of ordoliberalism. This is a political–economic school of thought based on the principles of price stability, flexibility, and reliability; it also requires mostly a balanced public budget.²⁰ This economic philosophy played a significant role in the evolution of the German economy, which also generated prolonged, massive trade surpluses starting in 2000, after the launch of the EMU. Trade surpluses contributed to German economic growth. However, trade surpluses in Germany have resulted from an existing macroeconomic imbalance of the gross domestic saving and investment accounts. A large share of German gross saving is not absorbed domestically and has to be shifted abroad. This shift occurs when German banks extend commercial loans to periphery eurozone countries to finance purchases of German exports. Germany advised the periphery eurozone countries to also generate trade account surpluses to grow and thus be able to exit the eurocrisis. However, not all countries could be like Germany—they could not generate trade surpluses, especially when they were trading with each other (Cabral 2013).

Germany has often criticized the ECB for following a low interest rate policy because this had a negative effect on savers and particularly on the older Germans who relied on interest payments as a source of income. However, the ECB decided that Germany should support correct monetary policy to help the eurozone out of the eurocrisis. Germany has always tried to impose its views on the ECB, expecting the ECB to employ a monetary policy that was similar to the Bundesbank’s policy, which prefers higher interest rates. Martin Wolf (2016), the editor of the *Financial Times*, commented that although Germany is important, it is much smaller than the eurozone and cannot dictate policy in the EMU. If Germany could not accept this, Wolf (2016) suggested Germany should exercise its right to exit the eurozone. Independent ECB monetary

²⁰ Several authors from the Freiburg School tradition argue that the German response to the crisis was based on pragmatism according to the circumstances rather than to ordoliberalism; see Feld, Köhler, and Nientiedt (2015).

policy is very important considering the unorthodox fiscal policy adopted by the European Union that was predominantly spearheaded by Germany.

No one can accuse Germany of not practicing what it preaches. In 2009, both chambers of its parliament amended the German constitution to provide for a balanced budget for both the federal government and the German states. Since 2016, the amendment prohibits the federal government from having a structural deficit²¹ above 0.35 percent of GDP. This rule-based policy was proposed by the Social Democrat Finance Minister Peer Steinbrück of the grand coalition government. This indicates that the amendment had full support of the entire government under Chancellor Merkel's guidance and leadership (Deficit Rule Reform Team 2014). The rule-based policy, which is in line with the ordoliberalism principles, became a national point of pride for Merkel and the top members of the CDU and CSU parties.

The newly approved fiscal policy rules, the “debt brake,” and the “balanced government budget” were adopted during one of the worst times for the global economy. Several economic and geopolitical events that preceded the German constitutional amendment exposed the eurozone to high risk. These events started with the election of Donald Trump (2017), the subsequent trade wars between United States and China (2018), and the interruption of the international supply chain. The Middle East upheaval caused geopolitical tensions following the Turkish invasion of Syria (2019). Brexit (2016) was another risk factor faced by the eurozone economy. Following these events, several economic indicators were sending signals of a looming recession for the eurozone and especially for Germany.

The economic situation in Germany, due to insufficient private and public investment, kept deteriorating. Germany failed to revitalize its economy. New infrastructure was nowhere to be seen. For example, several bridges could not be used when traffic was heavy. Outdated broadband slowed down the flow of electronic communication via the internet. Chronic, insufficient spending on education and research are likely causes of the predicted recession. Many economists and politicians raised strong criticism against the German government for not following sound fiscal policy. The chief economist of the Centre for Economic Reform in

²¹ A structural deficit is the deficit of a country when its economy is at full employment

London, Christian Odendahl, suggested that Germany must end austerity because balanced budgets are “economically incorrect” and detrimental to the people aiming to help (Odendahl et al. 2019).

After numerous internal and external requests for fiscal intervention to prevent further economic stagnation, Merkel and the grand coalition government were hesitant to act. Merkel refused to increase public spending above the constitutionally protected public debt limit. The fear that Merkel would ever render the debt brake moribund tormented the most convinced members of the CDU who declared they would never forgive the chancellor if this happens. The last spending proposal was for education, digitalization, the environment, and infrastructure public investment.²² The proposed amount was for €450 billion for ten years. Merkel was quick to reject it even though the entire project would have been financed by the creation of a special purpose vehicle (SPV) and did not require any funding from the public budget (Zestos and Cooke 2020). The revitalization of the economy was so important and obvious that a few of the staunchest supporters of austerity started demanding the government to end the debt brake and the balanced budget. Bundesbank President Jens Widmann was one of those requesting a change in the rule-type fiscal policy and the removal of the debt brake from the constitution. Return to discretionary fiscal policy would be the optimal policy to free both Germany and the eurozone from the painful procrustean fiscal rules.

EVALUATING THE CHANCELLOR

Angela Merkel’s main objective, according to many critics, was reelection. She clung to power for 16 years by making numerous compromises. As a world leader, she could not receive a favorable evaluation because her decisions and policies did not improve the world community. As a matter of fact, Merkel’s policies divided the European Union and eurozone along a north–south, creditor–debtor countries basis and brought the eurozone to the brink of breakup. Merkel also knowingly divided Germany into economic classes. She was definitely a probusiness

²² It was suggested by the German BDI Business Lobby and the German Trade Union Confederation (DGB), two of the most powerful organizations representing businesses and labor, respectively.

chancellor, aiming to increase GDP at any cost, and mostly by increasing income inequality. However, this approach started with the previous government when the Hartz Reforms were launched by the government of the SPD Chancellor Schröder.

In 2015, upon the chancellor's approval, the German government accepted more than one million refugees, most of them from Syria. Merkel deserves much credit for such a humanitarian decision and for her ability to win reelection in 2017. This is the brightest page in her long political career. This was a very daring and risky decision by Merkel, since voters abandoned the CDU and CSU parties in great numbers. As a result, the neo-Nazi party, Alternative for Germany (AfD), received a stunning 13.3 percent of the popular vote to become the third most popular party in Germany.

The ideal solution for the Syrian refugees, nevertheless, was to help them remain safe in their ancestral homes. Such a solution could not be achieved, since this would have required a military confrontation and possible clash against Russia and Turkey, two countries that both established military bases there. As a result, Germany and the European Union were unable to help Syria and other countries in the Middle East, thus allowing two countries that are not democratic and do not respect human rights in their countries to decide for the future of other countries.

As a rule, Germany is against military solutions to resolve problems between countries, but Germany has a lucrative and competitive export weapons industry. The German government is liberal in selling weapons, regardless of which countries buy them, as long as the countries are not at war when purchasing the weapons. For example, Germany sells many weapons to Turkey, a very aggressive country that has been ruled by Tayyip Erdogan for more than two decades. Erdogan openly declared that the aim of foreign policy is to restore the defunct Ottoman Empire, the predecessor of modern Turkey. Erdogan is aggressive against small neighboring countries and expands Turkey by occupying lands of smaller neighboring countries. Consequently, Iraq, Syria, and, prior to Erdogan's time, Cyprus, have fallen victim to Turkey's neocolonial appetite and expansion. Turkey usually cooperates with Russia, and the two countries employ mercenaries to carry out some of their expansionist policies. More recently, Erdogan became

more aggressive as he set conditions for the admission of Sweden and Finland to NATO. Unless the conditions were met, he threatened to veto the admission of the two countries.

Chancellor Merkel continued to cultivate an old alliance and friendship with Turkey that dates to before World War I, when both were empires that dissolved at the end of this war. Presently, the relations of the two countries are excellent, with more than 6,000 German firms operating in Turkey and millions of Turkish workers migrating to and living in Germany. Since Turkey violates the airspace, the continental shelf of Greece, and the exclusive economic zone of Cyprus (EEZ), the EC often meets to discuss sanctions against Turkey. Germany, however, under the guidance of Merkel, always intervenes to postpone or avoid sanctions against Turkey. This is an important criticism of Merkel because Turkey violates international law and does not respect women or minorities, nor the human rights of its people. Merkel, however, appeared to have no remorse for her unjust position on this important issue, a matter that affects millions of people living in the Middle East and Mediterranean Sea area, including the citizens of two EU countries.

Despite these failures, Merkel was an effective leader with an excellent work ethic. For example, she has a strong memory and ability to work long hours, often much longer than her male counterparts. Furthermore, she was a humble person, never seeking to receive credit even if she was the one deserving it more than anyone else. She did not accept the label “leader of the free world,” because she believes leadership was never exclusive to one individual or one country. Merkel deserves much credit for promoting green energy and deciding to abandon fossil fuels, such as coal and oil. To arrive at this decision, she was influenced by the Green Party, thus demonstrating her ability to be influenced by other parties when it was for the benefit of the country. In this case, she demonstrated pragmatism (Brady 2021), something she stubbornly refused to consider in the case of the eurocrisis.

GEOPOLITICAL TENSIONS

The European Union has failed to complete economic integration, so it has not yet become a single economic and political entity. Several EU country leaders lack both the vision and the strong will for further integration. Most recently, the European Union has been reduced to a simple spectator, observing the development of significant geopolitical events while it is unable to have a voice of influence. Such developments negatively affect the European Union directly and indirectly. This was demonstrated on October 9, 2019, during the Turkish invasion of Syria. Depending and relying on the United States, and particularly on President Donald Trump, to maintain peace in Syria turned out to be a colossal mistake, as he abandoned and betrayed the Kurdish fighters (YPG) who worked with the United States as an ally in the war against ISIS, especially when the latter was not totally defeated. Similarly, the decision of President Joseph Biden to pull US forces out of Afghanistan was another gigantic mistake that legitimized the extreme Islamic group, the Taliban, allowing them to form a government. The lesson is that the European Union, a group of 27 democratic countries, should not be free riders in such important areas of foreign and defense policies.

EU countries can draw strength from unity since even the larger EU countries are not big enough to stand alone and exert geopolitical influence. If the EU becomes a militaristically stronger group and more economically and politically integrated, the EU will gain respect and a voice in areas such as the Middle East and its outer border in the east and the Mediterranean Sea. Neither Angela Merkel nor Germany alone should be held responsible for the present international standing of the EU and its inability to influence world affairs. This can be explained by the unique history of Germany starting at the end of World War II. The first few years after the war, Germany was not allowed to have an army. A few years later, upon the persuasion of the allies, Germany militarized itself and joined NATO in 1955. However, German governments never developed Germany as a military power. German governments instead focused on strengthening the economy.

Germany followed Ostpolitik in its relations with Eastern European countries and Russia. This allowed West Germany to develop economic relations and rapprochement with East Germany and other communist countries despite the ideological differences.²³ In modern Germany, Willy Brandt, the first social democrat chancellor of West Germany (1969–74), launched Ostpolitik. Brandt was an internationally respected and successful chancellor. In 1970, he laid a wreath at the memorial to the Jewish Warsaw ghetto where he kneeled, expressing respect and that served as an official apology for the millions of Nazi crimes.

TWO UNEXPECTED EVENTS THAT SHOCKED THE WORLD

The world system undergoes fundamental structural changes only when major shocks take place that disturb the sociobiological and geopolitical order. Two such rare events occurred recently. The first shock was the COVID-19 virus, which spread across the European Union and around the world after it was first discovered in Wuhan, China in late 2019. On March 1, 2020, it was declared a global pandemic by the World Health Organization (WHO). COVID-19 is a rare pandemic similar in nature to the flu pandemic that occurred at the end of World War I (1918–19), which is estimated to have killed 50 million people. As of early August, 2022, there have been over 584 million confirmed COVID-19 cases and over 6.36 million deaths. The COVID-19 pandemic has spread more quickly in the developed countries than in the developing ones. As a result, Europe and the United States reported the most cases and deaths.

The second tragic and rare event is the Russian invasion of Ukraine, which began on February 24, 2022. This is a war of one Slavic country against another. People still cannot believe it happened. Most analysts are convinced that this war by Russia is simply for the purpose of expanding its borders. The Russians justified the war as a way to provide for the protection of Russia from NATO by annexing parts of Ukraine and as a way to protect Russian minorities from Ukrainian government oppression.

²³ Ostpolitik is based on pragmatic political diplomatic relations excluding ethics from decision making. It was first introduced as Realpolitik during the period 1862–90 by the first German chancellor, the Prussian leader Otto Von Bismarck

COVID-19 Pandemic

Although the eurozone nearly collapsed as countries were left alone to confront the eurocrisis, the European Union responded drastically different to fight COVID-19. EU country leaders agreed to create a €750 billion recovery fund that was named “Next Generation EU,” a COVID-19 recovery package that was frontloaded over the first years of the pandemic. Of these funds, €390 billion were in the form of grants and the remaining €360 billion was raised by the European Union by issuing bonds sold in the international markets at very low interest rates. This was the first time the European Union was allowed to issue common public debt.

In addition, EU leaders increased the long-term budget for 2021–27 (multiannual financial frameworks) that, together with the recovery fund, amounted to €1.8 trillion. It was also agreed that the ECB would purchase €1.35 trillion of eurozone member countries’ bonds to help them fight the pandemic. The loans from the recovery fund were extended to countries that presented plans for their investments in the digital and green economy (European Commission 2022).

This far-reaching package can have the effect of fundamentally reshaping European budgetary policy and redistributing competences and responsibilities between the European Union and the member states. The result could be a significant deepening of European integration, an idea proposed as the solution to the eurocrisis. This unexpected event has been taking place in the European Union for the last two years while Merkel was in office.

One can wonder what the chancellor’s reaction was, since she once said: “As long as I live, mutualization of public debt will never take place” (Severin and Bremer 2012). It took a pandemic of COVID-19 dimensions for European Union and Germany to set aside all the fiscal treaties and the balanced budget to place human life above everything else. According to many analysts and EU supporters, this was a welcome change and possibly a turning point in European integration history. Once the pandemic is over, the European Union must pursue sound economic policies to balance its options of controlling public debt, but not stagnating the EU economy.

Russian Invasion of Ukraine

On February 24, 2022, the world was reminded that the demarcation of frontiers following the end of World War II and the collapse of the Soviet Union are not over yet. At least this will be the case as long as Vladimir Putin is the autocratic president of Russia. Europe has not seen a war of these dimensions since World War II. The most disturbing fact is that the war does not seem to be close to an end for three major reasons. First, the Russians (Putin) do not seem to be in a hurry to end the hostilities. Second, the Ukrainians are determined to fight to the end. Third, aid from the European and non-European allies to Ukraine has been and continues to be steady. This makes Russian occupation difficult and perhaps impossible. Ukrainian allies are, however, cautious not to directly intervene in the war or to provide a no-fly zone for Ukraine, for fear that this will give Putin a reason to begin a nuclear war that he has already threatened several times (Duthois 2022).

EU countries promised and are supplying both nonmilitary and military aid. Most European countries and the EU Commission committed exact numbers of specific weapons and quick delivery. The United States and Canada also committed military. A major shift in German foreign policy was triggered as a result of the invasion of Ukraine. For first time, Germany has provided lethal weapons to countries engaged in warfare. Such a decision is extremely important for two reasons. First, Germany is now moving away from its long-held Ostpolitik policy. Second, Germany is a relatively large, industrialized country that produces advanced weapons. Furthermore, Germany can most likely make a difference in promoting peace in the region in cooperation with the European Union by simply being a strong military power.

At this point the focus is on the newly elected chancellor, Olaf Scholz, the leader of SPD who was selected to be the new chancellor of Germany on December 8, 2021. Since Chancellor Scholz served as finance minister in Merkel's last coalition government, he was well-known to the German people and voters. The news media portrayed him to be similar to Merkel and many claimed that this is a main reason he became the new chancellor.

In a recent historical speech at the parliament (Bundestag), after the invasion of Ukraine, Scholz redefined German foreign policy by abandoning Ostpolitik. This is a major reversal of Merkel's

and of all previous German governments foreign and defense policies. Under this new proposed policy, Germany can help Ukraine against Russian aggression since Putin's decision was a gross violation of international law (Oltermann 2022). Scholz proposed a large annual military budget of €100 billion. The chancellor's speech announcing his decision to help Ukraine was hardly communicated to the audience in the Bundestag and to the party leaders in the coalition. Thus, many people were caught by surprise. However, the proposal received strong support in the Bundestag as well as among the public. The new German defense policy is also aligned with the EU policy announced by the EU Commission President Ursula Von Der Leyen. We will never know if Merkel would have been able to match the chancellor's spontaneous initiative or if she could ever manage to come up with such a quick decision knowing how cautious she was.

On June 7, 2022, Merkel gave her first interview at the Berliner Ensemble Theatre in Berlin after leaving the office. In the interview, she defended her position toward Russia, as she chose diplomacy and commerce to deal with Putin. She posed and answered her own question saying if diplomacy and commerce do not work to prevent "mischief" that does not mean she was wrong. Thus, she refused to apologize. The former chancellor told the audience that she and other leaders prevented Ukraine from joining NATO back in 2008; otherwise, the invasion of Ukraine would have taken place back then as Putin, she explained, would not have tolerated NATO membership for Ukraine. She expressed a mild criticism of herself for failing "to create a security architecture that could had prevented the war" (Solomon and Bubola 2022). If she could have created such security but opted out, then this would constitute a huge unforgivable negligence considering the loss of so many lives and destruction caused by the Russian invasion.

Mikhail Pontoliak, an advisor to Ukrainian President Volodymyr Zelenskyy, expressed much disappointment with Merkel's position the next day, as he was unconvinced from Merkel's explanations. Pontoliak's frustration is understood, as the chancellor admitted in her interview that she realized that President Putin constituted a threat to the European security for many years. However, she said it was in the interest of Germany to pursue German dependence on Russian energy to justify her approval of the construction of Nord 2 gas pipeline from Russia directly to Germany. Did the Nord 2 gas pipeline result in German and European dependence on Russian

energy? This was a major mistake of Merkel, with severe consequences not only for Germany but for the rest of the world for the present and for the future.

On July 16 2022, the London Times published an article reevaluating Angela Merkel's performance as the chancellor of Germany (Moody 2022) the article was written after Merkel revealed, during her sole interview in a packed Berlin theater, that she was well aware of Putin's hostile intention toward Germany and the European Union. According to the Sunday issue of the *London Times* (Moody 2022), Merkel was motivated by various influence groups such as her own advisors, the representatives of the political parties in the coalition governments, corporate interests, the German press, and the daily opinion polls. This arrangement hardly left any room for her own discretion. With the exception of Merkel's decision in 2005 to accept one million refugees in Germany, the author of the article supports the view that the chancellor took the path of the least resistance in her career (Moody 2022).

People wonder why Merkel did not respond to her own perception and instinct to begin preparing the defense of her own country from a real looming threat. Three very important reasons kept Merkel occupied and deterred her from taking any action: the eurocrisis, the 2015 migration crisis, and the COVID-19 pandemic. Considering the disaster of the Russian invasion and what reasonably one can expect from the aftermath, deterring Russian expansion should have been a priority of the maximum importance for Merkel.

Since the invasion of Ukraine, the people's perception of Merkel has been drastically changing in almost every aspect. From being considered the most popular leader of Germany and the European Union, even after the expiration of her last term, Merkel is now blamed for many upcoming misfortunes. Since the *Sunday Times* article came out on July 16, Merkel received heavy criticism regarding mishandling energy, defense, and environmental policies. Merkel's switch from nuclear energy and fossil fuels to green energy was a great accomplishment, then it became now huge problem. After the invasion of Ukraine, Germany found itself in a difficult position as it had no other choice but to return to fossil fuels and nuclear energy. In addition, the Nord Stream 1 that carried gas from Russia to Germany is no longer functional.

Merkel also followed an appeasing approach toward China. Her approach was probusinesses. In every trip to China, Merkel was accompanied by a group of businesspeople considering trade and investment opportunities in China. Germany has now overtaken the United States as the number-one trading partner with China. Placing any conditions on China was minimal with only a few such exceptions. The first exception was the request of Merkel to free the wife of Nobel Peace Prize winner and human rights activist Liu Xiaobo. Germany can be in serious threat as China is adamant in its relations with foreign countries.

CONCLUDING COMMENTS

Chancellor Merkel should have been well aware of the turbulent European history, as she lived most of her life in a divided Germany as a result of World War II. Despite her knowledge of the history and the need for strong European unity, she turned her back to European integration and she divided Europe into north–south and creditor–debtor nations following the militant CDU-CSU party members that believed they could serve their country by narrowly defining national interests. Merkel’s approach made the European Union and Europe weak. Consequently, Merkel deviated from the European course that Germany followed before her. This happened because she was most likely convinced that her dogmatic thinking was correct. As it turned out, Merkel’s conviction that austerity is always the correct economic policy, even in the midst of a major recession, was her Achilles’ heel. Because of her policies, the eurocrisis deepened and was prolonged. In the end Germany was also negatively affected. The lesson for future German and other EU country leaders and governments is to avoid ethnocentric policies because they are detrimental to both Germany and the European Union.

We ask whether Merkel can be held responsible for the prolonging of the eurocrisis and the increase of income inequality in Germany. The causes of these problems are deep and have their roots in the recent history of Germany, starting with the Hartz I IV Reforms during the period 2003–5. However, we believe that Merkel shares responsibility as the leader of the CDU party and the four coalition governments. This allowed militant hardcore conservatives of the CDU and CSU parties to impose their harsh economic policies on Germany and the eurozone. The

only alternative option for the chancellor was to resign and not to have facilitated a coalition of German political parties that reinstated the hubris and arrogance of the first and third Reichs.

COVID-19 a deadly pandemic that caused much pain and millions of deaths in Europe and to the rest of the world. COVID-19 has also motivated EU countries and leaders to place European integration and unity above ethnocentric nationalistic interests. The EU initiative to address COVID-19 jointly can have long-term positive effects in the EU budgetary process. Issuance of EU common debt can be an unparalleled positive step toward European integration. It will facilitate financing of the European Union and EU countries at the lowest interest rates possible. This will be a source of strength for the European Union.

Lastly the Russian invasion of Ukraine proved how shortsighted German political leaders were for so many years. The invasion of Ukraine also destroyed the myth of the excellent reputation of Merkel for being one of the most successful European leaders and German chancellors. The invasion of Ukraine by Russia has been going now for several months with no clear indication for a quick exit. Escalation of the war is possible and this could be the worst scenario for humanity.

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