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Sarkozy and Merkel Diverge Over Euro Strategy

By PAUL TAYLOR | REUTERS

PARIS — Just when Europe needs strong leadership to overcome its **sovereign debt crisis**, its pivotal leaders, Angela Merkel and Nicolas Sarkozy, have both been weakened at home.

The political futures of Mrs. Merkel, the German chancellor, and Mr. Sarkozy, the French president, may hinge on their handling of the crisis that began in Greece and threatens to overwhelm the 17-nation euro zone.

“If **the euro** fails, then Europe fails,” Mrs. Merkel often says. She might add that she and Mr. Sarkozy would be likely to go down with the ship.

Yet powerful domestic forces are pulling the two leaders in opposite directions in advance of elections in France next year and in Germany in 2013, driving Mr. Sarkozy to seek a bold advance in European integration but keeping Mrs. Merkel’s foot on the brakes.

The chancellor is under pressure from voters, influential media critics and rebels in her center-right coalition to resist any further bailouts after unpopular rescues of Greece, Ireland and Portugal failed to stop the spread of the crisis. Opinion polls show three-quarters of Germans oppose any more aid for Athens. Mrs. Merkel has said she is doing her best to avoid a Greek default but indicated that might

not be possible. After a string of state election defeats, she struggled to rally a majority of her own supporters in Parliament last week behind strengthening the euro zone's rescue fund.

"This time it has to be enough!" the mass-circulation daily newspaper Bild thundered the next day. The conservative establishment newspaper Frankfurter Allgemeine said the vote was "no carte blanche for a rescue orgy."

Economics Minister Philipp Rösler, leader of the liberal Free Democratic junior coalition party, which has been gutted in recent elections, vowed to oppose any leveraging of the fund of €440 billion, or \$590 billion, to increase its financial firepower. That suggests tougher fights to come over a proposed second bailout for Greece and the creation of a permanent European stability mechanism to replace the temporary rescue fund.

Each new vote in the German Parliament, the Bundestag, is likely to be more difficult than the last. That could reinforce Mrs. Merkel's innate caution and resistance to such big ideas as common euro zone bonds — backed by the entire euro zone — or a large-scale joint program to recapitalize European banks.

The chancellor describes her own crisis management philosophy as "driving by sight," advancing "step by step" and avoiding processes that could run out of control. Critics say the risk is that her small steps could soon be overtaken by uncontrollable events in the financial markets.

By contrast, Mr. Sarkozy is under pressure at home to avoid a Greek default, which would harm French banks, and to accomplish some feat of European statesmanship to propel a re-election bid mired in scandals and economic gloom. "It is not possible to let Greece fall, both for economic and moral reasons," he said after meeting the Greek prime minister, George A. Papandreou, drawing a parallel with the collapse of Lehman Brothers in 2008. "The entire banking system around the world paid the consequences."

The president, who is trailing opposition Socialist challengers in the polls, suffered a blow last week

when his conservatives lost control of the Senate for the first time since the Fifth Republic was founded in 1958.

That effectively killed off his plan to anchor a “golden rule” on deficit reduction in the Constitution — a commitment he made jointly with Mrs. Merkel in an effort to reassure markets and shore up France’s AAA credit rating.

A spate of scandals involving allegations of illegal financing of conservative election campaigns with kickbacks on arms sales and briefcases of cash from African dictators, as well as snooping on journalists, has undermined Mr. Sarkozy’s promise to clean up politics and run “a republic beyond reproach.”

Long-serving aides and friends have been detained by the police and placed under judicial investigation.

Even traditionally supportive news magazines are talking of an “end of reign” atmosphere in the Élysée palace.

With public debt at 86.2 percent of gross domestic product and France’s credit rating under scrutiny, Mr. Sarkozy has had to eschew pre-election giveaways and draft a tight 2012 budget, curbing public spending and culling more civil service jobs by attrition. Debt service has overtaken education as the biggest spending item. Unemployment is stubbornly high, at 9.6 percent.

Mr. Sarkozy’s leading Socialist challengers, François Hollande and Martine Aubry; centrist hopefuls like François Bayrou and Jean-Louis Borloo; and even some of his own cabinet members are calling for France to take a stronger lead on European integration. Foreign Minister Alain Juppé, himself once seen as a potential president, came out last week for a “real European federation,” with a common economic government and a bigger central budget to sustain the common currency.

In contrast to Germany, there is hardly any political or media questioning in France of the cost of euro zone bailouts, even though Paris is the second-largest contributor, after Berlin.

The instinctive French response to the crisis remains “more solidarity.” For that, read: “Lend more public money to Europe’s weaker brethren.” The German reflex is “more discipline.” Read: “Tougher punishment for deficit ‘sinners.’”

Mr. Hollande and Ms. Aubry both support issuing joint euro zone bonds to bring down the borrowing costs of countries on the periphery and “fight speculation” — a position shared by Germany’s opposition Social Democrats and Greens. Mr. Sarkozy has so far rejected the idea, which has plenty of supporters inside the French policy establishment, chiefly because he knows it is a nonstarter for Mrs. Merkel.

Seizing the initiative in Europe might be his best hope of winning a second term, but it would not be without risk. He might drive nationalist voters toward the far-right National Front of Marine Le Pen, who advocates pulling out of the euro and erecting trade barriers to shield French industry.

Perhaps more important, if not carefully handled, a grand Sarkozy initiative for closer European integration could bring a backlash in Germany, causing trouble for Mrs. Merkel and fueling panic in the financial markets. The stakes are high.

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