

Berlin-Washington Tensions

■ Differences over economic priorities and the diverse histories of Barack Obama and Angela Merkel may require increased care and feeding of the U.S.-German relationship.

By Bruce Stokes

BERLIN—In the wake of the G-20 summit in London, the trans-Atlantic spat over the relative importance of economic pump-priming versus financial-sector regulation is an unsettling reminder of the ongoing discord between Europe and America. In the face of the worst economic crisis since the Great Depression, Europeans see Americans as reckless—and Americans see Europeans as feckless.

Nowhere are those differences more evident, more profound, and more troubling than in Germany, where the disconnect with Washington runs deeper than mere disagreement over economic priorities. The divide is a reflection of differing national psyches, experiences, and self-interests.

Such tensions have long characterized Washington's troubled relationship with Paris. Now they complicate ties with Berlin. Germany is the pivotal actor in the European Union and the driving force behind the European economy. If the Obama administration is to rehabilitate the United

States' alliance with Europe, the effort starts in Berlin.

Washington's German problem has little to do with the anti-Americanism that plagued relations during the Bush administration. Germans overwhelmingly supported Barack Obama for president, tens of thousands turned out to cheer him at a July 2008 speech in Berlin, and nearly two in three Germans expect him to change U.S. foreign policy for the better, according to the 2008 Pew Global Attitudes survey.

But the economic crisis has exposed rifts that suggest a U.S.-German reconciliation is not a given. And the foremost constraint may be what analysts say is the German sense of self-righteous virtue.

Chancellor Angela Merkel bitterly recalls warning President Bush at the 2007 G-7 summit about the need to better regulate the financial sector, according to officials who have met with her recently. But Bush would not listen, Merkel complains. The chancellor believes that time has proven her right and Bush wrong.

President Obama readily acknowledges America's past lax regulation. But Merkel's

"I told you so" has not exactly been conducive to beginning a productive Berlin-Washington conversation about the future.

The Teutonic sense of economic propriety is also offended by what Germans see as the profligacy of American consumers. "The Germans say: 'The Americans have gone on a binge and now they want us to pay for it,'" said Andre Sapir, a professor of economics at the Free University of Brussels.

Americans have indeed lived beyond their means. Germany, however, has run a trade surplus with the United States for more than a generation, so it was not just American consumers who benefited from this spending.

Germans believe they get no respect for their economic heavy lifting of recent years: their vast expenditures to rebuild eastern Germany; the national debt they incurred in doing so; their subsequent belt-tightening to balance the budget; and the resulting slow economic growth they endured. They feel that they shouldered a burden for all of Europe in the wake of the Cold War and that their fiscal rectitude is the main reason the euro currency has succeeded.

Europe certainly would not be united, prosperous, or free without Germany. But the same can also be said about the Cold War exertions of the United States. There is credit to be shared all around.

Germans also complain about the lack of recognition for their efforts to cope with the current crisis. "We do more than any other country in Europe," griped Klaus Zimmermann, president of the German Institute for Economic Research in Berlin.

True. The International Monetary Fund estimates that Germany's increased discretionary spending in 2009 will total 1.5 percent of the nation's gross domestic product, more than twice that of the stimulus spending in France. Yet the Obama administration and many American economists still lecture Berlin to up the ante. Washington's failure to acknowledge Berlin's spending efforts is particularly galling, one German economist acknowledged, because "we are only doing all this for symbolic reasons; we don't believe it will affect the current crisis."

In addition, Germans' smug sense of past righteousness clashes with Americans' cavalier attitude of "what have you done for us lately?" It's a classic case of couples' miscommunication. One party feels unap-

■ Opposites



■ The Obama rock-star phenomenon has little in common with the political rise of Chancellor Angela Merkel, who came up slowly in the rigid East German system.

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preciated. The other can't understand this obsession with past slights.

Breaking out of this stalemate requires leadership. If Europe and the United States are to have any chance of reviving the world economy, warned Nicolas Veron, a resident scholar at Bruegel, a Brussels-based economic think tank, "there will have to be an Obama-Merkel axis to get things done."

But observers here warn that such a relationship may prove difficult to consummate. "Merkel doesn't get Obama," said one veteran of U.S.-German relations. Obama the rock star phenomenon has little in common with Merkel the politician. Raised in the rigid communist East German system, she clawed her way to the leadership of the male-dominated ruling Christian Democratic Union through perseverance and determination. The showman and the slogger come from different worlds.

Moreover, said John Kornblum, the U.S. ambassador to Germany in the second Clinton term, the Germans are surprised because "Obama talks like a European but he behaves like an American." The president says what Germans like to hear about closing the detention facility at Guantanamo Bay, Cuba, but he presses them to do more in Afghanistan, a war they oppose.

German experience with, and reaction to, the deepening global recession further complicate cooperation with Washington. The downturn came late to Germany. The economy began to seriously suffer only in the fourth quarter of 2008, when it contracted 2.1 percent, compared with a decline of 6.3 percent in the United States over those same months. Much of the German public is still in denial.

"We have not perceived the dimensions of the economic crisis," acknowledged Werner Hoyer, a Free Democratic Party member of the Bundestag. Added Elmar Brok, a German Christian Democratic member of the European Parliament, "there is a strong feeling that we have been through troubled times before and that we will survive these as well."

The German public's disconnect on the economy is hardly surprising given the nation's strong social safety net. German employers have the option of putting workers on *kurzarbeit*, or reduced-time work. All employees who lose at least 10 percent of their gross monthly income because of cutbacks in work time are entitled to government aid

■ Infrastructure Improvements



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■ The German stimulus package relies more on long-term building projects than on spending to boost short-term consumption. The U.S. sees that as a lack of urgency.

that replaces up to 67 percent of their lost take-home pay. Such payments can continue for up to 18 months, much longer than in other parts of Europe.

About 200,000 people were on *kurzarbeit* in February, according to the German labor ministry. But the ministry is now processing several times that number of applications for aid, suggesting that firms are moving rapidly to trim working hours.

"*Kurzarbeit* is a way of buying time," said Michael Burda, a professor of economics at Humboldt University in Berlin. In the early 1990s, during the recession that followed reunification, German firms had more than 900,000 people on *kurzarbeit*. Now short-time work is a way for the government to minimize unemployment until after the national election in September. *Kurzarbeit*, however, is expensive for employers, who are responsible for paying much of the health and pension contributions of short-time workers. So, if by fall it looks as though the economic crisis will drag on into next year, analysts expect firms to begin cutting jobs to save money.

But delaying the day of reckoning does not change the deterioration in the underlying economic reality. "The situation is worse than the mood of the people," warned European parliamentarian Brok.

The German economy will shrink by up to 7 percent this year. The unemployment rate hit 8.6 percent in March, and 3.6 million people were looking for work. The Organization for Economic Cooperation and Development, the Paris-based think tank

for major industrial countries, predicts that the number of Germans without work will reach 5 million by 2010, a psychologically traumatic threshold that Germans associate with the advent of the Nazis.

Nevertheless, the German business community is schizophrenic about the economy. For the past few months, the Ifo index of business leaders' sentiment in Germany has shown growing pessimism about the economic climate but rising expectations about the future. It is no wonder then, said Reinhard Butikofer, the former head of the German Green Party, "since we don't acknowledge how deep the trouble we are in, we can't even try to mobilize" to get out of it.

German officials disagree, proudly citing the increase in government spending in the past half-year. Nevertheless, the OECD has calculated that these expenditures will add a meager 0.5 percent to German growth in 2009, far short of the 1.3 percent boost to American growth expected from U.S. stimulus spending. The difference can largely be attributed to the Germans' preference for spending on long-term infrastructure projects, rather than on boosting short-term consumption. The Americans see this as a German failure to appreciate the urgency of the immediate crisis.

Axel Weber, president of the Bundesbank, Germany's central bank, confirms Americans' fears. "We should be frank about this," he said at the Brussels Forum, the annual gathering of trans-Atlantic policy makers. "The most we can do is mitigate the crisis."

German officials argue that more government spending would do little to spur the country's economy, because much of what local industry produces, such as sophisticated machinery, is for export and not for the domestic market. Thus, more money in consumers' pockets would simply spur demand for imports. They note that Berlin's current "cash for clunkers" initiative, which pays consumers to turn in old cars and buy new ones, has disproportionately benefited South Korean automakers, with their smaller, more fuel-efficient models. Germany's critics retort that this outcome is exactly what the global economy needs. As a beneficiary of globalization in good times, Germany should now spend more to help spur growth elsewhere.

German economists also maintain that current infrastructure spending is already straining the capacity of the local construction industry. More public works spending, they contend, will only feed inflation, which has long been a German worry. "I can promise you that the response to this [crisis] will not be inflationary," vowed the Bundesbank's Weber.

There is no denying that the hyperinflation of the early 1920s left deep scars on the German psyche. Inflation, though, is not Germany's current challenge. Consumer prices are expected to rise no more than 0.6 percent this year. Berlin's aversion to spending may be driven as much by bitter experience as by fear of future price rises. German officials never fail to remind Americans that Washington pressured them to increase spending in 1978, only to see inflation ensue. They vow to never repeat that mistake. Still, analysts in Berlin expect more German government spending by June, not to please the United States but to appeal to local voters before the September election.

Long-term, the Germans deny that the current crisis foreshadows a need for structural changes in the world economy. Berlin has been a strong advocate of greater financial regulation to rein in "cowboy" capitalists on Wall Street. But long overdue reforms of the German banking sector continue to stagnate.

More important, many Germans see their economic troubles as an imported recession. They portray themselves as powerless victims of global forces.

Since the mid-1990s, exports have driven the German economy. And Germans pride themselves on being the *exportweltmeister*, or export world champion. In January 2009, however, exports were down 20.7 percent compared with a year ago, the biggest drop in 16 years. "Tell me when the global economy will recover and I will tell you when the German economy will bounce back," one economist in Berlin quipped.

With a relatively low level of imports, Germans say that additional domestic stimulus spending would be of little help to others. "We can contribute only marginally to global recovery," Zimmermann said.

Americans don't see it that way. "It's not the Germans' fault that they make good products that the United States wants to buy," Obama said at a press conference in Baden-Baden, Germany, in early April. "But there is probably going to need to be a rebalancing of who is spending, who is saving, what are the overall trade patterns."

That call may fall on deaf ears. There is no serious discussion here about the possibility that Germany's current-account surplus, which the International Monetary Fund expects to equal 6.2 percent of GDP this year, may need to shrink in the interest of re-establishing global economic stability.

Just below the surface of Germans' denial of the magnitude of the recession and their ability to do anything about it run faint strains of paranoia. The popular press and some German politicians have portrayed General Motors' plan to divest itself of its Opel division as an American plot to first suck the German automaker dry of its technology and then dump the withered firm on the German state. Serious economists in Berlin privately contend that the United States is pursuing deficit spending to fuel inflation to weaken the dollar and thereby improve the competitiveness of American industry. They dismiss protestations that this outcome is an unintended consequence of the downturn.

The upcoming national elections have further complicated German economic policy-making, as they do in any democratic country in the months before a vote. The sense here is that the current coalition government, made up of conservative Christian Democrats and liberal Social Democrats, is likely to return to power, possibly with a smaller majority in the Bundestag.

But, Kornblum warned, "there is an increasingly realistic scenario that nobody wins the election. Then you have the German nightmare, a multiparty government." Such an outcome could also prove to be a U.S. headache because it would result in a weak German government that would be even less able to share economic and political responsibilities around the world.

America has long had a special relationship with Britain. But its indispensable European relationship is with Germany, the cornerstone of the European Union. Profound German-American differences threaten to undermine this vital partnership at a time of grave global economic turmoil. Bridging those differences may be the most important European priority for the Obama administration. And success depends not just on the Americans but also on the Germans. ■

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