Merkel Offers Spain No Respite as Debt Cuts Seen As Key

By Tony Czuczka and Rainer Buergin - Apr 16, 2012

Chancellor Angela Merkel opened her campaign to win back Germany’s most populous state in May 13 elections by appealing to voters to endorse her message of austerity as the prime means to tackle Europe’s debt crisis.

“It’s partly about still being able to shape our own future,” Merkel said late yesterday at a rally in the city of Muenster in North Rhine-Westphalia. Countries in Europe that have run up debt “are so tightly in the hands of the financial markets that they can’t make independent decisions anymore. We have to watch out that high interest rates on our debt don’t lead to the point where we can’t decide and shape anything anymore” in Germany.

Merkel’s comments underscore a focus on her government’s record of tackling debt and deficits as a core campaign theme as her Christian Democratic Union fights elections in two German states next month. The ballots will offer a snapshot of her crisis handling as the turmoil resurfaces in Spain.

Her message was reinforced by Finance Minister Wolfgang Schaeuble, who said separately that any amount of bailout funds and financial firewalls “won’t solve the problem” without a commitment to reduce debt and raise competitiveness, the root causes of the crisis.

“That’s why the countries with too high debt, Germany included, have to reduce debt,” Schaeuble said in an interview with SWR television in Berlin as Merkel spoke in Muenster. “And the countries with insufficient competitiveness have to become more competitive. Then you need a common finance policy in Europe -- that’s the fiscal pact. And if you need anything else, then you build the firewall. If you only build the firewall, you can take 10 trillion and it’s not going to solve the problem.”

Spain Default Risk

The euro dropped to less than $1.30 for the first time in two months yesterday as Spanish bond yields touched a 2012 high. Spanish debt risk climbed to a record for a second day and signalled a 37 percent chance the euro area’s fourth-biggest economy will default as its borrowing costs surged to levels that prompted its neighbors to seek bailouts.

Germany faces criticism for its anti-crisis policy of spending cuts from economists such as Nobel laureate Paul Krugman. Spain needs a new remedy to its ills since its story “bears no resemblance to the morality tales so popular among European officials, especially in Germany,” Krugman said yesterday in a New York Times article headlined “Europe’s economic suicide.”

Billionaire investor George Soros told a conference in Berlin last week that Europe’s German-inspired fiscal compact to promote budgetary discipline can’t work in its current format and that the euro is “broken and needs to be fixed.”

Lack of Understanding
“I know the concerns” of Soros, Schaeuble said in his interview. “I don’t share them.”

“I think many haven’t really understood what European integration is,” he said. “It’s something new and that’s something they don’t really understand. We’re creating step by step a common financial policy in addition to the monetary policy we already have. And the fact that we didn’t have this from the start is something he couldn’t really understand.”

Merkel, addressing supporters on the city square outside Muenster cathedral, did not mention Spain during the first of 15 campaign stops in 25 days. Schleswig-Holstein votes on May 6, followed by North Rhine-Westphalia, which with almost a quarter of Germany’s 82 million people is a bellwether for the parties’ national fortunes. The next federal election is due in the fall of 2013.

Merkel is campaigning to recapture North Rhine-Westphalia after the main opposition Social Democrats took the state from her CDU party at a vote in May 2010, days after she backtracked and agreed to a first bailout in Greece. The result deprived the chancellor of her majority in the national parliament’s upper house, the Bundesrat, where states are represented.

Voters in the state now face a choice between “living on borrowed money” and “a good future for you and your children” that requires reducing the state’s debt, Merkel said. Differences over the importance of reducing debt are “the focus” of the campaign.

To contact the reporters on this story: Tony Czuczka in Muenster, Germany at aczuczka@bloomberg.net; Rainer Buergin in Berlin at rbuergin1@bloomberg.net

To contact the editor responsible for this story: James Hertling at jhertling@bloomberg.net