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Charlemagne

Waiting for Angela

The German chancellor has big decisions to make in Europe, but will take her time

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AROUND Europe, they sit and wait for Angela. They waited for her to fight her election campaign. Now they must wait for her to form a coalition. Eurocrats draft papers, crunch numbers and muse about the future of Europe. They look in their hats. But there is nothing to be done until Angela Merkel comes. Triumphantly returned as Germany's chancellor, Mrs Merkel has already said her European policy will not change. So what are they asking for? A bit like Vladimir and Estragon in "Waiting for Godot", theirs is "a kind of prayer...a vague supplication" that Mrs Merkel do more to end Europe's misery.

The newly re-elected chancellor will be in Brussels for a summit next month, but little will be decided. Perhaps things will move at a meeting of finance ministers in November, or maybe at the next summit in December. Yet time for legislative work is short. The European Parliament will break up in April for its own election campaign. Europe is not like Samuel Beckett's play, in which nothing happens; bad things may happen when its leaders do nothing.

To begin with, Europe's banks need to be fixed, not least because firms in southern Europe still face crippling borrowing costs. But Europe must wait for Mrs Merkel to decide on the form of the promised banking union. EU leaders have established a new euro-zone bank supervisor, with the European Central Bank (ECB) at its core. The next stage is harder: creating a bank-resolution authority with the power and money to wind up or restructure bust banks and allocate losses. Germany said a proposal by the European Commission in July was illegal because it centralised too much power. Instead, Germany wants a looser arrangement among national bank-resolution authorities.

German officials have privately hinted that they are ready to strike a deal, but want Germany's many small banks carved out of the system. But what is the value of a banking union without the bulk of German banks? And unless there is genuine risk-sharing, it will be hard to clean up losses without overburdening national budgets and damaging the credibility of the new bank supervisor from the outset.

Another pressing question is Greece and Portugal. Both will need more bail-out money (or a debt write-off) in the coming months. But they too must wait for Mrs Merkel. Some hope that she will find it easier to secure approval in the Bundestag for a bail-out, and ease demands for austerity, if she forges a coalition with the Social Democrats. But don't expect her to put up a lot of money.

Until now Germany has argued that its medicine has been working. Unit-labour costs and the current-account balance in troubled countries are moving in the right direction. But growth is sluggish at best, and unemployment remains worryingly high. Several countries are close to deflation, which would increase their real debt burden. Tellingly, Germany's current-account surplus has risen above 7% of GDP. Some want Germany do more to boost demand at home to help southerners adjust more quickly. In a joint paper this week, two German Europhiles, Daniela Schwarzer of the SWP think-tank in Berlin, and Guntram Wolff of Bruegel in Brussels, advocate three measures: increasing public investment in Germany, facilitating migration by Europeans to Germany and liberalising the services sector. The alternative to supporting the adjustment may be less palatable, such as more bail-outs, more debt defaults or bigger transfers.

Then there is the question of the longer-term future for Europe. Italy's prime minister, Enrico Letta, is among those warning that Europe must have an appealing vision of greater integration if it is to resist a surge of Euroscepticism at the European election next May. "Sacrifices, yes. Cuts, yes. Then the Promised Land," is how he puts it. But Mr Letta, too, must wait. In the land of milk and honey, as he sees it, the euro zone would have a central budget and could borrow money to invest in growth-enhancing projects. The IMF made a similar call this week in a report outlining several options. But such ideas were shot down by Mrs Merkel last year. Even a limited model, in which the euro zone would offer modest financial support for countries that accept reform "contracts", shows little sign of becoming reality soon.

This suggests that the idea of changing the EU's treaties has been pushed back, frustrating Britain's most obvious means of repatriating some powers after 2015. So the British prime minister, David Cameron, must also wait for Mrs Merkel to help him obtain a more diffuse reform of the EU as a whole. She has sounded only vaguely supportive about rebalancing EU powers.

Mario came yesterday

One reason for the lack of urgency is that the markets have been sedated by the ECB's promise in late 2012 to do "whatever it takes" to prevent the break-up of the euro. The central bank's pledge to buy bonds of troubled countries (on condition that they submit to a reform programme) has proven an effective bluff, bringing down yields without spending a cent. But Germany's constitutional court is due to rule later this autumn on the legality of the ECB's planned Outright Monetary Transactions. For critics the policy is tantamount to outright monetary financing of governments. Should Karlsruhe's judges limit the ECB's freedom of action, the markets may test the bank's resolve.

In short, the euro crisis is far from over. It could be revived at any time by any one of several events: a banking crisis, another slump, a political backlash or even unwise judicial meddling. Then Mrs Merkel will be called upon to act once more as the euro's saviour. For now, she is more like Godot, who cannot promise anything, has to think it over—and must check the bank account before taking any decision.

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From the print edition: Europe