

# The “New German Question”: which Germany in which Europe? A French Perspective

by Valéry Denoix de Saint Marc

The growing role of Germany not only within Europe, but also as a representative of the EU towards the rest of the world, has recently been exemplified by two striking events: the visits paid to Chancellor *Merkel* in Berlin by the Chinese Prime Minister, *Li Keqiang*, in May 2013, and by the American President, *Barack Obama*, in June 2013. These were not mere bilateral visits; both were held to deal with major international issues. Neither statesman visited any other European country on this occasion. Implicitly, therefore, both apparently assumed that Chancellor *Merkel* speaks on behalf of Europe.

This perception is confirmed by the key role played by Germany within the European institutions and her strong relationships with other European states. Another striking example of the place of Germany within Europe is the virulent resentment exhibited against the German Chancellor in some European countries, expressed in sometimes harshly critical or even offensive statements by politicians or the media, not least in France. How are we to explain this evolution? Is Germany willing to play a, even *the* leading role in Europe? What are the implications of this development for the construction of Europe?

## I. The increasing imbalance between France and Germany deprives the Franco-German partnership of its traditional driving role within Europe

### 1. The Franco-German partnership has been the main driver for the construction of Europe

The Franco-German partnership undoubtedly played a critical role in the construction of the EU. However, both countries were driven by different

*Anmerkung des Herausgebers:* Der Beitrag eröffnet eine Reihe von Abhandlungen, die sich auf das „Außenbild“ der Bundesrepublik Deutschland richten und damit eine Fragestellung aufnehmen, die im Ausland beträchtliche Aufmerksamkeit findet, in Deutschland dagegen tabuisiert bleibt: die nach einer etwaigen Führungsrolle des Landes im Rahmen der Europäischen Union und der erweiterten Staatengemeinschaft. Der Autor, *Valéry Denoix de Saint Marc*, ist Anwalt in Paris und Berlin. Ihn für diesen Beitrag zu gewinnen, verdanken wir dem Rat meines langjährigen Kollegen und Freundes *Guy Carcassonne*, der vor kurzem in St. Petersburg tragisch verstarb. Er begleitete zahlreiche Jahrgänge der ZSE aus der Sicht des Verfassungstheoretikers und überzeugten Europäers; seine Nähe zum politischen Prozess machte ihn zu einem begehrten Diskussionspartner. Die gemeinsamen Veranstaltungen in Berlin, Paris, London, Oxford und Brüssel bleiben unvergessen. Wir betrauern seinen Tod.

considerations. Generally speaking, France has been following political objectives whereas German policy was driven by economic considerations. France played a key role in the major initiatives of European integration, beginning with the EDS and the ECSC, and leading to the most recent developments (Schengen, the creation of the Euro, etc.). Several factors enabled her to play this key role.

France has always seen her participation in European integration after World War II as a way of adapting her capacity to project influence, not only within Europe, but also worldwide. This justified her acceptance of corresponding transfers of sovereignty to common European institutions – a fact that is difficult to overestimate: for centuries, the state had played a critical role in the development of France as a nation. The cohesion between the political aim of being actively involved in the construction of Europe, shaping its institutions and influencing its decisions, on the one hand, and democratic support from the French population, on the other, was therefore critical for French presidents and governments to work in this direction. To a large extent, this drive probably relied on ambiguity. The debate on the nature of European institutions remained (purposefully) unsettled and ambiguous. The strategy followed by French governments relied explicitly on the vision of Europe as a political coalition of nation-states rather than aiming at a federalist and supra-national institution. Features deriving from the latter approach were merely accepted as inevitable concessions, granted reluctantly. This was to be limited, however, by intergovernmental co-operation between Member States. As a consequence, France paid insufficient attention to the more federalist elements and did not succeed in building up instruments to secure or even further her own influence. In most cases, French representatives within these institutions were probably not the most promising or talented actors. Thus, *political* considerations prevailed in France, not only in the way she approached European integration but also in the development of her own economy. The latter, therefore, has always relied on industrial groups that are, in turn, influenced to a large extent by governmental industrial policy.

Symmetrical conclusions may be drawn with respect to the role of Germany in the first decades of European integration. The late unification of the regions and peoples identifying themselves as the German Nation in a single political unit has obviously had deep implications for the perception of Germany by her own citizens. The strong influence of the *Länder* in the political life of Germany and the symbol of Bonn as a “non-capital city” were two most striking examples of

this difference between post-war France and Germany. The reconstruction of Germany after World War II relied on the recovery of her economy, not least from a political and psychological point of view. *Economic* development thus became an element of self-esteem. The focus on economic development meant that international trade, not only within Europe, but also with external partners, has traditionally been seen as a critical issue. Europe as a market for German products was obviously a strong incentive for Germany to dedicate herself to the European project. Furthermore, Europe served as a significant driver of identification, playing a crucial role in Germany's motives to foster European integration.

Therefore, one could assume that German support bestowed strength and legitimacy onto the French initiatives. Franco-German proposals obviously benefited from the strength of the German economy and its relevance within Europe. More importantly, their bilateral initiatives were the result of reciprocal concessions and were therefore regarded by the other countries as more balanced (therefore more likely reflecting the general interest of Europe) than individual proposals of either country.

## **2. The increasing gap between Germany and France has reduced the relevance and impact of their partnership**

### *a) Causes of the transformation of the Franco-German Partnership in Europe: German reunification and Eastern Enlargement*

Both German reunification and the enlargement of the EU were direct consequences of the collapse of the Soviet system; both events were beyond the scope of significant French influence. The collapse of the Warsaw Pact came unexpected and was welcomed by the French public. It was considered to be a relief from the threats of the Cold War and the liberation of peoples that the French had traditionally regarded as friends. Reunification and the integration of Central and Eastern Europe into the EU nevertheless raised mixed feelings in significant parts of the French public. The official declarations celebrating German reunification were, to a certain extent, lip services paid to this event: France could easily have kept living with a divided Germany.

Similarly, even if the French government and the French public were aware of the necessity to open up the EU to newcomers from the East, they were reluctant to do so for two reasons: the enlargement of the European club necessarily diluted the influence of each single member (especially that of large founding

members, such as France), and the extension of the EU was, furthermore, identified as a risk that Germany would expand her own position in the East, at the expense of her relationship with her Western neighbours. It was feared that the new members would soon grow into strong supporters of Germany within the European institutions. Even if France did not question the principle of enlargement and was aware of its historical relevance, there was an obvious resistance in terms of both pace and modalities. The Central and Eastern European candidate countries were clearly aware of this reluctance, further weakening France's influence.

*b) The weakness of the French economy and of the political will to support the EU does not make France a helpful partner for Germany*

The steady decline of French economic weight within Europe over the last few decades and the recent, almost dramatic decline of the image of European institutions among the French public put Paris in a weak position to foster the Europeanisation process at large. This correlation between the deterioration of the economic situation, of declining national self-esteem and of a reluctant commitment to the EU has been eloquently summarised by a Pew Research Center survey published in May 2013:

No European country is becoming more dispirited and disillusioned faster than France. In just the past year, the public mood has soured dramatically across the board. The French are negative about the economy, with 91% saying it is doing badly, up 10 percentage points since 2012. They are negative about their leadership: 67% think President *Francois Hollande* is doing a lousy job handling the challenges posed by the economic crisis, a criticism of the president that is 24 points worse than that of his predecessor, *Nicolas Sarkozy*. The French are also beginning to doubt their commitment to the European project, with 77% believing European economic integration has made things worse for France, an increase of 14 points since last year. And 58% now have a bad impression of the European Union as an institution, up 18 points from 2012.

According to this survey, French public opinion regarding the European institutions ranks among the least supportive among all Member States. For years, French governments have used Europe as an excuse for unpopular reforms, thereby undoubtedly forestalling any potential improvement of this image. Nevertheless, even this behaviour cannot fully account for the dramatic evolution outlined above. A comparative analysis of French and German public opinion on the economic situation and their support of the EU is even more

striking as it sheds light on a growing discrepancy: the percentage of those believing that economic integration strengthens the respective national economy dropped from an already low level of 36 per cent (2012) to 22 per cent (2013) in France, whereas the same indicator fell only slightly from 59 per cent to 54 per cent in Germany. Similarly, when asked about their support of the European institutions, the number of Germans answering favourably decreased from 68 per cent (2012) to 60 per cent (2013), as opposed to a dramatic reduction from 60 per cent to 41 per cent in France (a drop of almost 20 percentage points in a single year).

The lack of political commitment to Europe as expressed by the French public is also reflected in the behaviour of the current French government towards European rules and directives, disregarding the agreed-upon targets for public debt and even insulting European representatives, as was the case when the Minister for Industrial Renewal insinuated that the President of the European Commission was “fuelling the support to extreme-right parties”. During the difficult months at the height of the European crisis, President *Nicolas Sarkozy* has at least been trying to keep alive the illusion of a genuine Franco-German partnership. However, this position was heavily criticized by parts of the French public as a sign of weakness towards Germany – almost as a sign of surrendering the interests of France and her partners within the Southern European countries. Whereas President *Sarkozy* managed to make Chancellor *Merkel* aware of the extremely difficult situation faced by many other EU Member States and of the need to take appropriate action, the imbalance between both partners turned out to be too significant to convince the Chancellor that a slower pace of budgetary reform was necessary.

In contrast, President *Hollande* has, in the meantime, developed a policy of balancing German influence through a reinforcement of relations with Greece, Italy and Spain. However, this policy has not yet proven to be very effective, especially given the absence of any structural and fiscal reforms in France. Paris has thus conveyed the impression that it does not feel obliged to act in genuine solidarity. As a result, the resentment created in the South by the austerity targets – which were jointly imposed by France and Germany as a condition for the successive bail-outs – remains unabated.

### *c) Is there an alternative to a Franco-German partnership?*

In the past, there have been several attempts to build alternatives to the Franco-German partnership within Europe. Since its accession to the EU, the United

Kingdom has been courted by both partners. In the eyes of Germany, it provides a favourable balance to traditional French reluctance when it comes to the market economy. Both countries also share an unequivocally close relationship with the United States. Conversely, given the aspiration of the United Kingdom to maintain its diplomatic influence beyond the borders of Europe, it shares similar concerns with France. But London has never truly considered joining the Eurozone and is notoriously reluctant to support European institutions. Successive British governments have seen the EU as hardly more than a comfortable free-trade area while an increasing part of the British public is seriously prepared to leave the Union.

Since the Central and Eastern European countries joined the Union, Germany and Poland have enjoyed a very close relationship, representing a dramatic historical achievement. In November 2011, the Polish Minister of Foreign Affairs, *Radek Sikorski*, even went as far as to declare that he fears German power far less than the country's perceived inactivity during the financial crisis. However impressive this historical change and however close the new bonds between both countries, one would have doubts that this relation may have a significant impact beyond bilateral cooperation and specific European issues in which the interests of both countries coincide. Despite her demographic, political and, increasingly, economic weight, Poland's policy toward Germany – largely due to different attitudes across the political spectrum – seems so unstable that no genuine partnership of significant European relevance should be expected in the foreseeable future. The “Weimar Triangle” between Germany, Poland and France appears to be more a reluctant French concession to Germany than a genuine strategic project.

As any other bilateral relationships between Members of the European Union would involve either countries of insufficient weight or influence, or countries that share too many similarities and are therefore not representative of (and to) the entire Union, no qualified alternative to the Franco-German alliance can be identified.

## II. Germany as the main driver for the construction of Europe?

### 1. The strength of Germany's economy grants her an increasing level of influence

#### a) *The strength of the German economy*

There is no need to provide an extensive analysis of how strong the German economy has become within Europe, a few figures will suffice:

- Germany represents a fifth of European output and a fourth of its exports.
- The German jobless rate (5.4 per cent) ranges at less than half of Europe's average, her youth unemployment rate (less than 8 per cent) is three times lower than the EU mean.
- Between 2000 and 2007, Germany's trade surplus with the rest of the EU grew from 46.4 bn. EUR to 126.5 bn. EUR.

Germany's bilateral trade surpluses with southern European countries are especially revealing:

- Between 2000 and 2007, Greece's annual trade deficit with Germany grew from 3 bn. to 5.5 bn. Euro, while
- Italy's doubled, from 9.6 bn. Euro to 19.6 bn. Euro,
- Spain's almost tripled, from 11 bn. Euro to 27.2 bn. Euro, and
- Portugal's quadrupled, from 1 bn. Euro to 4.2 bn. Euro.

#### b) *An expanded European role for Germany over the last two decades*

The direction and intensity of European integration over the past 20 years has led, as explained previously, to a steady expansion of Germany's role and weight in Europe. German reunification in 1990 and the enlargement of Europe eastwards have been very significant steps in this direction. It can also be argued that the creation of the Euro induced a significant growth of German leverage. Historically, this may appear as a paradox. The creation of the Euro as a common currency took place in 1999/2002, after a lengthy process of negotiation, of which the Maastricht Treaty, signed in 1992, was the most significant outcome. From the onset and throughout this process, Germany remained extremely reluctant to give up her own currency. And indeed, the *Deutsche Mark* was regarded as a key roadblock against inflation, a highly relevant symbol of German post-war history, and as the best way to strengthen German exports.

More generally, the *Mark*, so closely linked with the success of the German economy, was a very significant element of national identity.

It is sometimes considered that France convinced Germany (or even that President *Mitterrand* convinced Chancellor *Kohl*) to accept the Euro as a compensation for full French support of German reunification. This may have played a role. It is likely, however, that the key motive for Chancellor *Kohl's* decision to join the Euro was his concern that the European countries needed to be convinced that a unified Germany would remain firmly anchored within Europe and was ready to pay a significant price for this step. This explains why, for example, he turned a blind eye to all evidence that Italy, in contradiction to official statements, did not fulfil the criteria required to join the Euro. As a result, he decided, as a statesman facing a historical situation, that political considerations should prevail over financial and technical issues.

There were broad discussions on whether there should be a genuine monetary policy, under which the currency would be perceived as an expression of political power, or whether it should be regarded as the somewhat passive reflection of the strength (or the weakness) of an economy. Needless to say that the first approach was traditionally favoured by the French (and is still strongly supported by institutions such as the Federal Reserve or the Bank of England), whereas the second reflects German philosophy.

The co-ordination of monetary policy with other aspects of economic policy-making was a second issue under discussion. It was obvious from the outset that the adoption of a single European currency would have far-reaching consequences on all aspects of economic policy. Two options were initially considered: either a highly developed form of co-operation, including a long-term agenda of structural reforms (supported, among others, by *Jacques Delors*), or a softer type of multilateral control. The latter approach followed the idea that a common currency would provide sufficient incentive for a convergence between the respective countries' fiscal and economic policies. Retaining the advantages that the Germany economy drew from a strong currency was the main concern of the German side in negotiating the Euro. Conversely, France, whose monetary policy had *de-facto* been aligned with that of Germany since 1983, was eager to institutionalise a co-monitoring of monetary policy within the Euro system.

The German views have clearly prevailed on the most critical issues: the independence of the European Central Bank from political influence, the

definition of price stability as the prime objective of the European System of Central Banks, and a strict prohibition of any form of direct monetary credit to public bodies. Similarly, the general principle that neither the Union nor any Member State will be liable for the debt of any other Member State was clearly agreed upon as part of the EU's treaty base ("no bail-out" clause).

A softer approach, though, has prevailed concerning the co-ordination between monetary issues and other aspects of economic policy, in particular budgetary policy. The basic rule enshrined in the Treaty is that Member States shall avoid excessive government deficits. Compliance with this rule was to be examined on the basis of reference values for the general government deficit (3 per cent) and gross debt (60 per cent) in relation to GDP. However, as experience has shown, there is room for multilateral agreements to soften the consequences as these agreements are policed by the Council and not by an independent institution.

Further down the line, the Lisbon Treaty has also played a significant role in strengthening Germany's influence within the EU by reinforcing the position of the European Council and, therefore, of intergovernmental cooperation. The creation of a permanent president of the Council enhanced the role played by the representatives of the respective Member States, as opposed to that of the Commission. This evolution favours intergovernmental diplomacy, thus accommodating Germany's current strength (and punishing France's relative weakness).

The combination of these financial, political and institutional factors, in addition to Germany's capacity to bear a significant part of the bail-out burden, can explain why the country has played such a critical role in the reaction of Europe to the financial crisis.

*c) The critical role of Germany in the reaction of Europe to the financial crisis*

Greek's first bailout, partly funded by European taxpayers, and therefore in particular by Germany, was subject, as a prerequisite for German support, to strict conditions of deficit reduction. It was nevertheless hugely unpopular in Germany. For the second bailout, Chancellor *Merkel* was therefore keen to send a message to voters that not just they, but also the banks, would be paying this time. In June 2011, she agreed to President *Sarkozy's* suggestion that any contribution from private creditors to the second bail-out would have to be voluntary, as there was no legal way in which banks could be forced to cooperate. As Europe's paymaster, Germany had indeed called for Greece's private

creditors to swap their bonds for new ones with much longer maturities. Strong resistance from France, the European Central Bank and the European Commission was necessary to convince Germany to change her position and to prevent the risk that all three rating agencies declare a credit event, which would have triggered a domino effect. Similar debates took place when financial support had to be granted to other southern European Member States.

Under Germany's pressure and as a condition for her acceptance of the measures taken to cure the European crisis, the Treaties were amended in 2012, demanding the introduction of constitutional bans on structural budget deficits. The highly positive image that Germany enjoys in Europe due to her economic and political achievements have, however, been cancelled out to some extent by the negative perception of her political strategy during the Euro crisis.

## **2. European public opinion is extremely split concerning German influence**

An indirect consequence of the wide recognition of Germany's increasing influence in the Union, and more significantly within the Eurozone, is the harsh criticism faced by Germany in the aftermath of the financial crisis. The ambiguity of the general view of Germany's policy is reflected in comments published in May 2013 by the Pew Research Center based on a survey of public opinion throughout Europe:

The prominent role Germans have played in Europe's response to the Euro crisis has evoked decidedly mixed emotions from their fellow Europeans. In every country except Greece, people consider Germans the most trustworthy. At the same time, in six of the eight nations surveyed, people see the Germans as the least compassionate. And in five of the eight, they are considered the most arrogant. In the wake of the strict austerity measures imposed in Greece, Greek enmity towards the Germans knows little bound. Greeks consider the Germans to be the least trustworthy, the most arrogant and the least compassionate.

Interestingly, the results indicate that this discrepancy between German perceptions and the views of other Europeans is also reflected by wide differences of opinion on key issues:

Overall, the 2013 survey highlights more starkly than ever the differences between the views of Germans and other Europeans on a range of issues. And it underscores that, in some cases, those differences are growing. Germans feel better than others about the economy (by 66 points over the EU median), about their personal finances (by 26 points), about the future (by 12 points), about the European Union (by 17

points), about European economic integration (by 28 points) and about their own elected leadership (by 48 points).

The extremely tight conditions set for the successive bail-outs under the influence of Germany, in particular in terms of budgetary policy and a reduction of public expenses, might explain the large wave of resentment in the Eurozone, most significantly in the southern Member States. The most striking examples of the in parts crude expressions of resentment are caricatures of Chancellor *Merkel* featured as a new *Bismarck* or even a new *Hitler* as published in the Southern European press. According to some critics, Germany seems to be driven by irrational “moralistic” considerations. Chancellor *Merkel*, as a Protestant minister's daughter, is thus characterized as the embodiment of a misconceived ethical stringency. Scientific blessing is granted to such rhetoric by statements made by Nobel laureate *Paul Krugman*, who ironically summarised Germany's position in a column published in *The New York Times* on 31 October 2010 as follows: “Debt is evil, debtors must pay for their sins, and from now on we all must live within our means. And that kind of moralizing is the reason we're mired in a seemingly endless slump.” This theme has been, and still is, heard regularly from commentators, including the French press.

In some cases, though, criticism went beyond mere impulsive reactions. Some observers have underlined that Germany herself once enjoyed the financial support from the other European countries under exceptional circumstances, when she had to face the burden of reconstruction and reunification, and that under similarly exceptional circumstances, she should show readiness to do so in her turn. A more articulate approach is to underline that the tight budgetary policy imposed by Germany has a pro-cyclical impact at a time when most European economies suffer from significant recessions. In particular, the short time-frame set to achieve reduction targets only accelerate the downturn of these economies. This might be all the more true when a number of economies face the same situation at the same time, which deprives them of any possibility to benefit from compensatory effects in neighbouring countries. On the contrary, the argument stresses that when Germany undertook her own structural reforms under Chancellor *Schröder*, she could balance their deflationary effect with increased exports to neighbouring European countries, which were – at the time – enjoying more favourable conditions.

France is no exception to this outburst: Germany's position has been, and still is, violently criticised, in particular on the left wing of the political spectrum, even within the current government. According to *Jean-Luc Mélenchon*, a former

candidate in the presidential elections and chairman of the *Front de Gauche*: “Its present domination endangers the economy of each nation as well as the European construction itself. *Merkel’s* Germany is pushing the Union into recession and threatens the world economy.” Similarly, in December 2011, during the past presidential elections, *Arnaud Montebourg*, who has since become Minister for Industrial Renewal, compared Chancellor *Merkel* with *Bismarck* (which is hardly ever a compliment, especially in France!) and accused her of “killing the Euro”: “*Bismarck* made the political choice to reunify the German principalities as a mean to dominate the European countries, and France in particular. In a striking similarity, Chancellor *Angela Merkel* tries to solve Germany’s own domestic problems by imposing German conservatives’ economic and financial order to the rest of Europe. The old territorial expansion policy is back in the form of economic domination.” This strong resentment of the French left towards German attitudes at the peak of the financial crisis might explain the mixed feelings raised by President *Hollande’s* ambiguous speech held in Leipzig in May 2013 on the occasion of the SPD’s 150<sup>th</sup> anniversary celebrations: “Progress also means to make courageous choices when in hard times, in order to save jobs, to anticipate industrial mutations; and this is what Gerhard *Schröder* did, and this is what enables your country to be ahead of others.” This tribute paid to the measures undertaken by the former German SPD-led government was unexpected, given the previous criticism by the French Socialists.

Interestingly, Germany’s monetary and fiscal policy, which *Nicolas Sarkozy* supported to a large extent, is hardly praised publicly by the current right-wing opposition. The voice of *Les Arvernes*, a recently created think tank favouring the market economy and structural reforms, sounds quite isolated in the French press: “Although vilified, Germany is right!” (*Les Echos*, 29 April 2013): right to criticise Keynesianism, to promote a supply-side policy, to prepare the economy to face the harsh competition from the rest of the world, and to support the value of the Euro and the balance of the public budget.

### III. Since Germany is not as willing as one would expect to take up the leading role in Europe, the key to further Europeanisation might be closer integration

#### 1. Does Germany wish to play the leading role in Europe?

According to *Sylvie Kaufmann*, journalist at *Le Monde*, the Germans do not wish to face a debate whether Germany has to play a leading role in the future organization of Europe: “[Chancellor *Merkel*] carefully avoids the debate on the power of Germany and leaves it to the non-Germans; and the Germans for themselves do not wish at all, for the time being, to face it”. Since reunification, the Germans have no doubt ceased to have the strong self-deprecating image of their country which used to characterise their post-World War II national sentiment. The issue of national identity, however, remains sensitive.

Consolidating economic achievements seems not only a way to ensure the well-being of most German citizens but also a political and psychological objective in itself. This does not mean that the increasing economic supremacy of Germany in Europe is regarded by the Germans as a means of increasing their international influence. The ultimate purpose of Germany’s growing clout is rather to secure and further strengthen her own economy. Other potential aims of national diplomacy (or even strategy) are either ranked beneath this ultimate purpose or simply disregarded.

In this sense, international technical and scientific cooperation, for example, is perceived to a large extent as a means to assist the German industry in attracting a German-speaking local workforce or to promote German technical standards. The most striking illustration of the focus set on economic issues by German foreign policy might be the very remote role played by defence issues. The Elysées Treaty of 1963, for example, provided for a coordination of military doctrines. Accordingly, France proposed to Germany on several occasions to share, if not her *Force de Frappe* proper, then at least the doctrine underlying its existence. Germany, in a reflex of self-censorship, never answered these proposals. More generally, defence expenses represent a significantly lower portion of the German budget than in any country of similar size and relevance on the world stage. There are, of course, large obstacles in the way of a more active German military involvement; this is particularly true concerning the strict rules of parliamentary authorisation for German military action. This constraint makes it difficult to take action within short time-frames, as frequently required when reacting to rapidly changing scenarios. Because parliamentary debate

requires all relevant information to be made available, there is also an important risk of leakage regarding strategic or tactical information, causing reluctance among Germany's partners.

The most significant hurdle to a stronger German involvement, though, seems to be the fact that military action remains a political taboo for the German public. Chancellor *Schröder* was eager to "normalise" Germany's position on the international scene. His decision to send airplanes to Serbia in 1999 during the Kosovo War or to send the *Bundeswehr* to Afghanistan were met with great reluctance (if not hostility) by the general population. After *Angela Merkel* realised the strong German opposition to any participation in the Iraq War (which she had favoured) through an electoral defeat in 2002, she subsequently and carefully refrained from any major military endeavours during her Chancellorship, be it in Libya or in Mali.

In Germany, both these ventures were seen more or less openly as futile attempts of former colonial lords to project their long-gone imperial power. What is usually not seen by the German public, however, is that the larger part of the French (and probably British) public is widely indifferent to such nostalgia. Even though both actions proved to be militarily successful (which was far from obvious at the outset), they did not provide the respective governments with any wave of popularity.

However, the main reason why Germany may be reluctant to play the leading role in Europe is the growing relevance of extra-European partners in the pursuit of her economic interests. The increase of German international trade with non-European countries, and in particular with China, will probably have a deep and negative effect on Germany's commitment to further European integration.

Another striking recent example of the German government making strategic decisions without much regard for the position of the other European governments is the *Energiewende*. The future development of Europe's energy production and distribution systems calls for deeply interconnected policies, both technically and economically. Furthermore, this area of activity requires long-term planning. The abrupt decision to discontinue the production of nuclear energy leads to international implications, which appear to have been ignored. It was again *Sylvie Kaufmann* that underlined these ambiguities as follows:

Mrs. Merkel's Germany, which is reluctant to project its power, within the traditional meaning of the world, beyond its borders, is conversely making full use of such power in the economic and commercial fields. It does not want to become militarily

involved but actively exports weapons. It favors political union within Europe in order to strengthen its competitiveness worldwide, but refuses banking supervision and jeopardizes the EADS-BEA merger, which would have created a European defense giant. She does not hesitate to challenge the European Commission on sanctions against China for the solar-cells antidumping sanctions in order to save *Li Keqiang's* visit, which has given rise to a dozen commercial contracts.”

This raises the issue of whether Germany is willing to use her increased influence in Europe not only to further her own interest but also to take into account the general interest of Europe. Doing so would be both evidence of her genuine will to play a leading role in Europe and the prerequisite for the other European countries to recognise the legitimacy of such claims. Indeed, the survey conducted by the Pew Research Center contradicts often-repeated views on the German psyche: to be almost paranoid about inflation, disinclined to bail out their fellow Europeans and debt-obsessed. On the contrary, and most strikingly, Germans are among the least likely of those surveyed to see inflation as a *very* big problem and the most likely among the richer European nations to be willing to provide financial assistance to other EU countries that have major financial problems. And while Germans are worried about public debt, they are more concerned about social inequality and unemployment.

## **2. The continuing construction of Europe is likely to occur by way of successive crises, leading to a further strengthening of institutions that might reduce the role of the respective national governments**

The creation of the Euro as a single currency was ultimately a political decision, which explains several aspects of the system as adopted. It is acknowledged, in part due to *Robert Mundell's* work on optimum currency areas, that three main conditions need to be met for several countries to share the same currency and maintain a stable economy:

- their economies must be integrated, which requires both the mobility of the workforce within the whole area and that of capital, goods and services so that prices and wages can be set within a single homogenous market;
- the participants need to agree on a common risk sharing system, which could result from budget cohesion and solidarity as well as a common banking control system;
- the economies ought to maintain similar business circles, enabling a single monetary policy to meet simultaneously the requirements of all participants.

When the Euro was introduced, the responsible Ministers and Heads of Government were aware of the lack of homogeneity between the national markets and of the limited efficiency of existing adjustment mechanisms. Although the core participants of the Euro system (including Germany and France) may have shown more homogeneity than the various economic regions within the United States of America, this was cancelled out once the countries of the periphery were taken into account. This was and remains in particular true with respect to workforce mobility and the absence of a mechanism to ensure the harmonisation of wage levels. With the “no bail-out” clause, the formal exclusion of common liability of Member States, and no common control and last-resort-lender mechanisms for the banking system, two further prerequisites for an optimum currency area were willingly ignored. Indeed, the legal, financial and political implications of the necessary mechanisms were so dramatic that they would have been regarded as unacceptable by the peoples of Europe.

It is likely that the decision to institutionalise the Eurozone despite the awareness of such loopholes was taken for two main reasons. The first was that German reunification constituted a critical historical event, justifying such a dramatic step. The second reason consisted of the anticipation that the creation of the Euro would produce a strong momentum for continuing reform efforts to fill the gaps within the initial system. The creation of a single common market put pressure on European governments and institutions to harmonise national regulations and policies. It was anticipated that a single currency would create similar constraint and harmonisation. This was, at best, a courageous bet. Most European countries now pay a high price for the existence of these initial gaps, or at least for the fact that these gaps have not been filled before the outburst of the crisis.

In a very positive scenario, a few years from now, the Euro crisis might be regarded as cathartic moment. Indeed, the Member States were under dramatic pressure to design the first features of a common banking control system, which could become the nucleus of a common last-resort-lender system. Similarly the limits of budget deficits are to be anchored in the respective national constitutions. This is a first step in the direction of what could become a much more integrated system for the co-ordination of national decisions with an economic or fiscal impact. An optimistic analysis of the present situation could therefore lead to the conclusion that the necessary institutional corrective measures will be taken in order to ensure tighter co-operation and that, together with a sounder economic policy, they might stabilise the situation.

The suggestion by CDU and FDP representatives that a European President could be elected directly by the population, as also proposed by former President *Giscard d'Estaing*, would be another step in that direction. Whether the issue of Eurobonds, and therefore a form of public debt pooling, will one day be reality, might constitute a critical test for the validity of the idea that the existence of the Euro necessarily leads to closer integration – as this would be the normal consequence of an effective co-ordination of economic and fiscal policies (including the necessary structural reforms) and of a common budgetary policy. Indeed, the issue of Eurobonds would constitute a marriage without an option for divorce: it requires an extreme level of trust – which remains to be built.

In May 2012, a major rift opened up between Germany and France for the first time since the beginning of the Euro crisis, on the question of how to restore confidence in the single currency. A special EU summit marking the debut of France's President *François Hollande* saw him challenge Chancellor *Merkel* on the issue, arguing that the pooling of Eurozone debt liability – Eurobonds – was to be retained as an option for saving the currency. The influence of Germany had – thus far – stopped the European Central Bank from embarking on the bond-buying policy that the countries of Southern Europe were requesting. Chancellor *Merkel* furthermore ruled out Eurobonds for the foreseeable future.

The idea that the introduction of the Euro will keep the pressure on European governments to co-ordinate their economic and budgetary policies more closely leaves at least two main issues unanswered: how to deal with the increasing discrepancies between the economies of Southern and Northern Europe, which cannot be overcome by institutional changes only? Is this to remain a hindrance to more significant steps toward closer integration? A reduced geographical scope of integration may be one way to overcome the hurdle.

The second remaining question refers to the required institutional changes: how far will they reach and how will they be introduced? It seems that the latest developments within Europe, and in particular the way the Euro crisis has been dealt with, entail a reinforcement of intergovernmental mechanisms to the detriment of a more federalist, integrated approach (despite, for example, the improved legal position granted to the European Parliament). However, and in particular since Eastern Enlargement, the requirement of unanimity for intergovernmental decisions leads to a potentially dysfunctional system. Therefore, a higher degree of integration among Member States might be called for, even within the Eurozone, although this raises the question of the number of actors involved.

This coincides with a further issue: should such increased co-operation take the form of a legal/contractual approach, as is traditionally requested by Germany, or of a more political one, in accordance with French views. The *gouvernement économique* traditionally supported by France as a non-binding political way to co-ordinate economic policies has raised – at best – doubts on the German side. Germany is clearly of the opinion that monetary union requires a tighter co-ordination of fiscal, economic and social policies, as exemplified by the Stability Pact. The experience of the past years has, however, provided ample evidence that this tool is insufficient. The concept of improved economic co-operation has nevertheless been endorsed by Chancellor *Merkel*. However, it remains unclear what she means when using this expression – apart from the fact that it provides a way to limit the role of the European Commission. It is furthermore thought that it would encompass not only fiscal and economic issues but also, as a compromise with the French position, questions of social, labour and pension policy.

The most likely outcome would be a combination of both legal and political approaches. Given the impact of globalisation on all members of the Eurozone, their capacity to act together and to convince the rest of the world of their common relevance is critical. As long as different legal and political frameworks do not provide for a common fiscal policy and a common budget, a tight coordination of national policies remains the key. The Euro group seems at present to be the most appropriate tool for such co-operation, which would require the reinforcement of its structures.