
Europe: Germany's Dilemma

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Much against its will and not of its own doing, Germany is currently experiencing a 'unipolar' moment in European affairs. In handling the eurozone debt crisis, Berlin holds all the trump cards. The largest economy of the euro zone, which emerged well from the 2008 crisis in comparison to others, will have to shoulder the greatest burden in the rescue operation.

Furthermore, at Maastricht, European Monetary Union was modelled according to German preferences, and successive German governments did not pursue the initial concept of complementing EMU with a 'Political Union'.

Instead, Berlin preferred management by intergovernmental coordination and consensus,

twisted the rules in its favour, and relied on its veto power to steer developments – now, facing the most severe challenge to the traditional concept of integration, Germany has to act under the constraints and conditions of a eurozone regime of its own creation.

As other powers in such constellations have experienced, pre-eminence comes at a price: Germany is bound to lead; leadership requires a longer-term concept to guide and anchor choices; choices mean commitments, and commitments require domestic consensus. A review of European policymaking in 2010/11 reveals Germany's difficulties with all four elements of this package.

STATE OF PLAY

From the beginnings of the Greek crisis until the spring of 2011, Berlin's main approach was to buy member states time to sort out their troubles by national means, apparently following the business logic of 'just enough, just in time'. Eurogroup decision-making thus pursued a primarily reactive strategy, dealing with the effects of the crisis but leaving national governments to deal with its causes.

Framing the response in terms of 'each to his own' backfired when the volume of loans and guarantees necessary to deal with the crisis became larger and larger. Public debate in Germany readily picked up these tunes.

Fuelled not just by tabloid coverage, but also by mainstream media reporting and some talking-head economists, the whole operation was perceived by the majority as giving away hard-earned German euros to cheating, lazy and inefficient Greeks so that they could maintain their comfortable lifestyles.

Though public opinion recognised that default in the south would also hurt German banks and could harm the German economy, Chancellor Angela Merkel had positioned herself for battle on two fronts – against pressures and claims from other members of the euro

zone, and against increasingly negative public attitudes in her own country.

As it turned out, in 2011 this positioning had significant lose-lose potential. Whenever events forced Berlin to modify its stance, the German leadership looked behind the curve and appeared to lose as far as crisis management at the EU level was concerned. Moreover, confidence in Merkel declined in her domestic constituency.

Textbook wisdom maintains that leadership essentially requires followers. Working with others was one of the principal resources of West Germany's influence in the first few decades of EU integration, but now the 'Berlin Republic' faces difficulties and obstacles in this respect. It appears to want and need to throw its weight around more often; at the same time supporting actors and coalitions are breaking away. Cause and effect are inseparably linked, as is so often the case in politics.

On the debt crisis, Germany was effectively followed by the Netherlands and Austria, while Finland and Slovakia went their own way: this coalition is not weighty enough to strengthen Berlin's position in its competitive partnership with France on crisis management.

Under the magnifying lens of the crisis, Germany's policy on Europe appears to be undefined, based on tactics rather than strategy. It lacks a *leitmotiv* for deeper integration, while Germans still feel uncomfortable with a power-based approach. Berlin wants Europe to speak German in fiscal and economic terms, knowing that imposing this would

overstretch Germany's means, while pursuing it by "Europeanising Germany" would overstretch Germany's will. The dilemma inherent in this position has characterised Germany's European policy for longer than the current crisis, but it has never been as profound and apparent as in the autumn of 2011.

BACKGROUND

Three major developments have triggered a change in German views and policy towards the EU: (1) a shifting definition of the 'national interest'; (2) new perceptions and priorities alongside a transformed domestic agenda; and (3) the demise of a responsive European milieu.

Europe ranks lower among German national interests

Until the 1990s, European integration had been a cornerstone of the Federal Republic's national interest. Post-war West Germany depended on integration as a means of regaining the trust of its neighbours, developing its economy with secure access to markets, and ensuring that interests which the West German government could not defend itself were respected and promoted by its partners, above all the West German claim for reunification.

The integration process continuously delivered on that expectation. In the 1950s, it helped Germany to regain power quickly by pooling sovereignty at EU level, and it put the country on an equal footing with its neighbours to the West. Membership of the European Economic Community allowed Germany to play a defining role in Europe in the 1960s and 1970s without over-exposing itself. As the economically strongest part of the Community, Germany gained attention, respect and influence internationally. Its strength was widely perceived to be more of an asset than a problem, contrary to Germany's traditional image since the creation of the *Deutsches Reich* in 1871. West Germany's weight had become compatible with the political order of a divided Europe. To protect and to maintain that status, governing elites in Germany consensually committed themselves to making the European project a success.

Germany would never allow the ambition of advancing, deepening or broadening integration to fail, even if preventing failure were to require additional commitments or contributions from the Federal Republic. As a consequence, Germany's EU strategy would be to seek engagement in such ambitions so as to be able to shape their content.

Likewise, no German government would neglect the bilateral relationship with France as the pivotal actor in the Communities of the Six, the Nine and the Twelve. German political leaders continued to see themselves and act as junior partners in that relationship long after the Federal Republic's economic weight had surpassed that of its neighbour. Bonn devised many of the bilateral initiatives that were launched in Paris. At the same time, German chancellors and foreign ministers would

seek to maintain close relationships with other member states – in particular smaller ones – as the Community became larger, seeking to secure the acceptance of Franco-German initiatives and compromises among member states.

German unification in 1990 marked the climax of this definition of interests and its application as a strategy. Chancellor Helmut Kohl was able to overcome initial resistance and doubts about his 10-point plan for German unification among neighbours, due to Germany's firm anchoring in the European Union and its active engagement in the ongoing process of deepening integration. Into the 1990s, this strategy helped to reassure Germany's Eastern neighbourhood, secure market access and mitigate possible anti-German sentiment among aspiring future members of the EU.

At the same time, however, the essential role of integration in the promotion of Germany's national interest had been fulfilled. Konrad Adenauer's vision of achieving unity by way of integration had become reality. Many assumed the unified Germany would undoubtedly become Europe's principle power, merging the largest economy of the West with what seemed to be the most advanced economy of the former East, and drawing most – if not all – of the Soviet Union's former satellites into its sphere of influence.

Internationally, the new Germany was increasingly perceived according to its national status rather than in the context of its membership of the European Union. Germany had outgrown its role as the junior partner in the Franco-German relationship; other partners expected the German interest to be redefined and articulated in a more forthcoming manner. The Berlin Republic no longer depended on integration to promote its interests, and it did not feel pressed to define its long-term vision for Europe or outline a strategy to get there. Joschka Fischer's 'Humboldt Speech' on Europe in May 2000 became famous precisely because the foreign minister's take ran against the prevailing mood.

The federalist connotations of the term 'European Union', held high in German political rhetoric, gradually withered away throughout the 1990s. Where policymakers had previously been open to seeking a European seat at the UN Security Council, they now pressed for a German seat; where they had been concerned about securing qualified majority coalitions, they now seemed preoccupied with German veto options in an enlarged European Union; where they had generally favoured the application of the *Community Method* to new policy areas, preference had mostly shifted towards

intergovernmental cooperation. The strategy had shifted from principled support of the integration process to a more instrumental approach; Germany's European policy was becoming "more British", as a senior German diplomat noted at the time.

Domestic prevails over European

It may have been the 17 million 'new' German EU citizens who tilted the balance, as they were not schooled in the traditional paradigm of European integration. Opinion polls reveal, however, that throughout the unified Germany public views of the EU changed significantly after the ratification of the Maastricht Treaty and the establishment of European Monetary Union – alongside a more distanced view among the German elite.

While still holding positive views of the EU in general terms at levels somewhat above the EU average, the number of Germans speaking out in favour of a higher pace of advancing integration fell to levels well below the 20% mark in the early 1990s, and has stayed there ever since except for at the time of the European Convention, when the figure went up to 25%. In comparison, during the 1970s and 1980s, a higher pace of integration had always been the majority view.

While still associating Europe with mobility, peace and economic progress, perceptions in Germany began to centre on complaints about EU bureaucracy and over-regulation, wasteful spending, and a lack of transparency and legitimacy.

In the political class, these sentiments reinforced a policy approach that emphasised prioritising German interests – defined as gains – the protection of specific regulations, or budgetary savings. Since its ruling on the Maastricht Treaty, the German Constitutional Court has been seen as reinforcing such reluctant views – successive Court decisions regarding ratification processes have been widely (over-)interpreted as limiting or even excluding further deepening in order to protect German democracy.

While the involvement of the German *Bundestag* and of the state chamber (*Bundesrat*) in European affairs has steadily expanded as treaties have been ratified, criticism of the EU has not decreased: instead it has grown. At no time since the Treaties of Rome has the Federal Government's room for manoeuvre in negotiations been smaller than today.

Meanwhile, foreign policy had lost its special significance in the public's eyes. At no time in the history of the republic has a German foreign minister been less popular at home than today and at no time has this office been of less relevance – but even that seems to be of little significance in the political discourse.

In recent years, approval rates of closer cooperation with Germany's principal European and non-European partners have been declining. A significant case in point as regards the current crisis is the steadfast refusal of the German government to accept deficit procedures or sanctions when it was violating the Stability and Growth Pact over four consecutive years (2002-2005).

More than anything else, this demonstrated the new German approach to integration: characterised by efforts to bind others to provisions that reflected German preferences, but also by a determination not to be bound by these provisions should they interfere with the German domestic agenda.

These trends have deepened over recent years. Obviously, the German public and elites would like to see their country as a 'normal' but not ordinary member of the EU. In the summer of 2011, 35% of Germans still believed that a United States of Europe was a good idea in the long run (compared to 44% in France and 13% in the UK), but a majority of 50% insisted that issues of budget, taxation and economic policy had to remain in the hands of national parliaments (France: 54%, UK: 78%).

Until the debt crisis in the euro zone escalated, elites and the general public both seemed supportive of Angela Merkel's approach to managing EU affairs and her focus on the summit level of policymaking. According to the most recent 'Deutschlandtrend', however, a majority of German voters still trusted Merkel's crisis management. Nevertheless, 58% believe the government has lost direction and 84% believe the worst is yet to come.

The responsive European milieu has dried up

These changes in Germany have certainly influenced the metamorphosis of Europe's political landscape. But Germany has not been the sole agent of change. Compared to earlier stages in the integration process, the milieu of Germany's European policy has been altered in a profound manner.

Much of the traditional continuity and coherence has been lost over the course of successive enlargements: the EU 27 is more heterogeneous than any of its earlier formations. Also, Berlin has been frustrated in its expectations of Germany's role and partnership options.

Long-established coalitions have vanished and the six founding members have disappeared as drivers of integration. Other constellations, such as net contributors to the EU budget or the group of modern welfare states, come together according to circumstances and around specific issues only. The new member states in Central and Eastern Europe can by no means be characterised as a 'German club', as some within and outside of Germany had assumed 20 years ago. Building majorities in the EU has become much more complicated. Broad-based coalitions across policy issues no longer exist.

Gerhard Schröder (with Jacques Chirac) failed to integrate Tony Blair into a leadership triangle: if he ever seriously considered doing so. Since the days of Kohl/Mitterrand, the Franco-German couple has struggled with its inherent rivalry – back then, like an iceberg, most of its substance lay below the waterline; nowadays the opposite seems to be the case. Verbalism and open conflict between Paris and Berlin have in fact weakened the overall impact of both countries in the EU.

As leader of the opposition in the *Bundestag*, Angela Merkel used to criticise the chancellor for his neglect

of the EU's smaller member states. But as chancellor, she has followed in Schröder's footsteps by doing just that. It has often seemed more important to state Germany's unabridged position *vis-à-vis* its partners for a domestic audience, and so the impulse to inform and consult smaller partners – especially as they have become more numerous – has vanished.

Germany has departed from its role as a principal builder of coalitions. But it does not want this role to be taken by the president of the European Council, and the milieu for such policies has been drying up. On the one hand, calls for German leadership have become commonplace around the EU; on the other hand, there is a persistent lack of will to follow.

PROSPECTS

As the crisis in the euro zone approaches its peak, Merkel's Germany finds itself in conceptual disarray. Since its response to the 2008 financial crisis, the German deficit has also grown, by about 20 percentage points. A disruption of the euro would be a disaster for Germany's financial sector and its export-based economy. The magnitude of fiscal commitments in pursuit of a reactive approach surpassed the limits of what Germany can shoulder under an intergovernmental model, while the decisions of the European Council have proven to be insufficient security for member-state guarantees and loans. Public acceptance is at a low, and is most likely only being kept in check by the greater fear of a collapse.

In search of a leitmotiv

Forced to recognise that its initial positions deepened the crisis, Berlin is now seeking to tighten rules on fiscal policy, but would prefer to see them applied primarily to countries in trouble or via national legislation, such as the introduction of a debt brake. But trust in compliance by others remains low among German policymakers. This would be an arrangement built on Germany's current dominance, and would thus bring about significant transaction costs in the medium term.

By significantly revising the treaties, Germany could seek to transform its powerful position by building norms and structures – instead of relying on its continued ability to secure outcomes. Doing so would require a long-term strategy, but there are few friends of that in Berlin. Germany did not pursue this option at all until September 2011. Berlin believes it is unlikely to be negotiated in time, and certainly not ratified quickly, if at all, at the level of the 27.

An intergovernmental arrangement among eurozone countries would make sense if it were part of a longer-term strategy. Its content would have to be EMU-

compatible, so that it could later be adopted within the treaty framework. Without longer-term considerations, such arrangements could widen the gap between the 17 and those outside the zone. This would take the EU one step further away from the original concept of EMU, which was designed for all members but granted (temporary) derogations for those who did not meet the criteria.

The strategic approach would be to regain lost sovereignty over the issue by deepening integration on fiscal and economic policy with effective transfer of powers to the European or the eurozone level. Deep interventions in national budget policies would become the rule and affect all participants, Germany included. Such a system could hardly be governed by intergovernmental consensus.

Such is the German dilemma. What Germany was ready to do didn't settle the crisis. What could resolve the crisis, Germany isn't willing to do: unless compliance with stability requirements is secured. What could secure compliance Germany does not want and has no plans for: not least since it has abandoned its ambitions regarding the *finalité* of European integration.

The times do not allow for a lukewarm approach to European affairs. If Germany wants to prevent the collapse of the EU and of the euro, Merkel has to come up with a long-term strategic approach to deeper integration which could guide the EU's steps forward. On this, she will need to win consent among partners and at home – neither of these will be a given. But such is the essence of political leadership.

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These issues are analysed in the EPC's European Politics and Institutions Programme.

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