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Macron in Germany: far from a two-speed Europe

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The election of Emmanuel Macron as French president has been welcomed in Germany. Although the new French leader has the advantage of a positive attitude to the European integration project, Germany nonetheless realises that in today's reality, where the German economy dominates that of France, the two countries are fated to come into conflict. On the German side, there is the belief that the keys to resolving such disputes lie with Paris, because only deep reforms adapting the level of the French economy's competitiveness to that of Germany will allow a debate on deepening the euro-zone to be opened up. Berlin expects to see quantifiable results of the new president's economic policies, in the form of reductions in unemployment and public debt. An improvement in France's economic situation is a condition for German approval of further integration within the monetary union; for this reason, we should not expect any breakthroughs in this issue over the coming months. Germany will not want to accelerate the debate about the deepening integration of the euro-zone, especially as in the current system they maintain a strong influence on the economic policies of the other states in the monetary union without having to share their own sovereignty. However, greater flexibility may be forced upon Berlin by challenges coming from outside the EU.

Moderating the mood in Germany after Macron's election

The first reactions in Germany to the election of President Macron in France were dominated by a feeling of relief. The pessimistic forecasts prevalent in Germany after the Brexit referendum and the election of Donald Trump, that the public in the Netherlands and France might decide to entrust their governments to Euro-sceptic forces, did not come true.

However immediately after the elections, most experts and media representatives, as well as some politicians, received one of President Macron's main election promises with some suspicion: deepening the integration of the euro-zone. Macron's plan calls, among other measures, for the creation of a position of finance minister for the monetary union, a separate chamber in the European Parliament for parliamentarians from euro-area countries, as well as the granting of a separate budget. Despite isolated voices urging Berlin to make concessions to Paris, the question was very rapidly raised of how much the implementation of Macron's proposals could cost Germany.

As soon as the day after the elections, German government representatives began to prepare the ground for Macron's visit to Berlin (15 May) by outlining their objections. A spokesman pointed out that Germany is still opposed to the plan to issue Eurobonds, which assumes the mutualisation of part of the public debt of the euro-zone states through the

sale of common debt instruments. Soon afterwards, Chancellor Angela Merkel stressed that she saw no possibility of relaxing the current fiscal policy in the euro-zone. The French felt compelled to respond to the comments repeated in Germany; on the eve of Macron's visit, his advisers pointed out in interviews for German media that public opinion in Germany was too focused on the fiscal aspects of reform in the euro-zone, and the new president did not have a proposal to issue Eurobonds in his programme.

Announcement of pragmatic cooperation and symbolic projects

During Macron's visit to Germany, Angela Merkel presented herself as being open to the French proposals, while leaving no illusions that there could be no question of starting a serious debate about reform of the euro-zone without fundamental reforms to the French economy. Her position is also understandable in the face of the upcoming parliamentary elections in both countries, in June in France, and in September in Germany. The new arrangement of forces and decision-makers on both political stages will decide both on the possibilities for reforming the French economy and the direction of any changes in the euro-zone.

During the press conference, Merkel said that the German-French talks had focused on less controversial issues, such as the directive on posted workers, asylum rights, and balance in foreign trade. At the meeting of the French and German governments scheduled in June, specific bilateral cooperation projects will be outlined. Merkel has proposed the greater harmonisation of both countries' policies, especially in the fields of tax law for companies and mutual assistance in reforming the labour market. Merkel restrained herself from criticising Macron's plans which might be controversial for the German government these include an announcement (based on the Buy American law) that European companies should be favoured in tenders, and that anti-dumping laws should be made tougher. For his part, the new French president has tried to alter the emphases in Paris's so far position, recognising that it is not his intention to mutualise old debts within the framework of the euro-zone, although he has declared himself in favour of financing future investments from the monetary union's common budget.

Incompatible economies

Despite the friendly rhetoric between Germany and France during the Merkel/Macron meeting, there are serious economic differences between the countries, which will generate strong tensions.

Since the euro-area crisis began, the gap between the two countries' economies has been deepening. In the years 2010-16, Germany's GDP grew at an average rate of 2%, while in France the rate is barely half as fast (1.1%). In Germany the unemployment rate is falling steadily, and according to Eurostat is currently at 4.1%, whereas in France it has exceeded 10% since 2013. The French economy also has problems on the international markets; for some years it has seen a deepening trade deficit, in clear contrast to Germany's record trade surplus. For German politicians, the symbol of Paris's economic unreliability is the country's ongoing budget deficit (3.4% of GDP in 2016), which for the past nine years has been well above the 3% limit required by the Stability & Growth Pact. Differences in fiscal policy in both

countries mean that Germany's public debt level of 68% of GDP will soon reach the limit of 60% required within the EU, but there is no prospect of France curbing its debt, which is currently equivalent to 96% of GDP.

In the evaluation of the German political elite, the economic data cited above testifies to the inefficiency of the French economic model. Germany politicians see the solution to this problem in restricting social benefits, as was done in Germany in 2003-5 as part of the Agenda 2010 plan. Germany believes that this is the only way to cure the French economy, and that any compromise on this issue will condemn the EU to failure in its competition with commercial powers outside Europe. At the same time, tolerating too much public debt and making additional transfers (including the mutualisation of debts) would only extend the flaws of the French economy, limiting Paris's willingness to carry out painful social reforms, and ultimately leading to the collapse of the euro-zone. However Germany has not accepted the criticisms laid at its own door: for example, concerning the scale of its trade surplus, which has reached a level which threatens the stability of the euro-zone. Since 2014 Germany has been exceeding the limit of current account surplus of 6% permitted within the EU Macroeconomic Imbalances Procedure.

The economic differences between France and Germany will postpone the scenario of a 'multi-speed' Europe, based on deepening the euro-zone, for several years at least. As long as the French economy fails to improve, Macron's proposal to deepen the euro-zone will not meet with the support of Germany. It is true that Merkel has not ruled out future changes to EU treaties to reform the euro-zone, which represents a departure from her previous position; but for the time being, security, migration and competitiveness are at the top of Berlin's European priorities. In an interview with *Der Spiegel* in the context of Macron's visit, the German finance minister Wolfgang Schäuble concluded that at present, the EU should focus on completing the EU's energy and digital union, as well as beginning the creation of the defence union. Therefore, at this stage, Germany is more inclined to initiate or deepen its partial, symbolic cooperation projects with France than undertake any wide-ranging reform of the euro zone. Even if Germany agrees to a timetable for deepening the integration of the monetary union, it will not accept any increase in financial support for its member states without having any control over their economic policies. Since the creation of the banking union in 2013, which also assumed the mutualisation of bank guarantee funds, the Berlin government has blocked this part of the agreement at a later stage of EU legislation.

French-German relations and the EU's external threats

It seems that the current situation, in which Germany can use different mechanisms to influence the economic policy of the other euro-zone countries – from loans from the European Stability Mechanism to the operation of the European Central Bank – is favourable to Berlin. Germany would only be more likely to make concessions if it were forced to do so by threats from outside the EU. The economic differences between France and Germany will not prevent them from making short-term compromises, which may adversely affect the interests of Central Europe.

It cannot be ruled out that in the near future, Germany will become interested in ensuring greater cohesion within the EU's trade policy. In the global perspective, many political risks to the development of the German economy are taking shape, such as the exit of the UK

from the EU, the protectionist policy of the United States, or the rising economic expansion of China into Europe. From this perspective, it may appear that Berlin will need the help of even the economically weak and unreformed France. It remains possible that Paris, ignored by Berlin, will look for allies either inside or outside the EU, if only to limit the scope of Germany's trade surplus, which has been called for by both the governments of the euro-zone's south, and the administration in Washington.

Although Germany may not be able to reach an agreement with France on reforms in the euro-zone in the short term, it may nevertheless agree on an adjustment to the EU which would strike at the interests of Central Europe. Merkel could agree to French requests to limit the so-called social dumping from the new EU countries, for example by restricting the right of posting workers. In return, France would agree to the establishment of new mechanisms to block investment from outside the EU, which will allow greater protection for German companies against takeovers by Chinese investors. In exchange for the ability to increase budgetary expenditure, Macron may also agree to offer even stronger support to the effective implementation of the mechanism to relocate refugees within the EU, a very important matter for Merkel.