

Germany towards France: superficial compromises and structural differences

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The results of the French president's visit to Berlin on 19 April prove that Germany is unwilling to support the proposals for thorough reforms of the eurozone that Emmanuel Macron brought to the meeting with Chancellor Angela Merkel. In the present political constellation in Germany, none of the governing parties is interested in reforming the currency union, and two opposition parties, the AfD and FDP, openly oppose it. Chancellor Merkel herself, consistently and in line with the strategy she has stuck to for many years, is unwilling to accept this concept. If the concept was adopted, German taxpayers would have to pay the cost of reforming the economies of France and the southern member states of the eurozone, and the divides inside the European Union would increase. The new minister of finance, Olaf Scholz, a Social Democrat, seems to be inclined towards this stance. At the same time, a total rejection of Emmanuel Macron's position may undermine his reliability on the domestic political scene and also limit co-operation with France in areas which Germany views as important, for example, reforming the asylum system. Thus the costs of Berlin's concessions to Paris may be paid by Central Europe, if the funds from the cohesion policy as part of the new multiannual financial framework are shifted for the benefit of the southern member states of the eurozone.

Emmanuel Macron during his visit to Berlin last year, shortly after winning the election, made a proposal to Germany to establish closer co-operation within the eurozone in exchange for implementing reforms improving the competitiveness of the French economy. In less than a year, the French president conducted part of the reforms that made the labour market more flexible and restricted social privileges. At the same time, he launched an offensive promoting changes in the eurozone. In turn, Germany is still sticking to its strategy of pretending that it is interested in deep reforms of the currency union. Initially, Angela Merkel's passiveness was an effect of the election campaign and the process of building the government coalition which lasted many months. At present, German politicians principally openly reject all of Macron's proposals concerning the eurozone's reform, for example, the establishment of the European Currency Fund in the shape proposed by the French president, creating a budget for the eurozone and an introduction of a common system for guaranteeing bank deposits. The only clear proposal from Chancellor Merkel is to expand the Eurogroup within which ministers of finance from the eurozone meet so as to include also ministers of economy. The aim of this proposal, on the one hand is to shift the weight in the debate on the reforms of the currency union to the issue of improving competitiveness (and not creating transfer mechanisms, which France has been pushing

through). On the other hand, Merkel wants to gain access to the body that makes decisions concerning reforms of the currency union that are vital for the ministry of economy (which the Christian Democrats are in charge of). The head of the ministry, Peter Altmaier, is one of the chancellor's most trusted aides.

The new background for Merkel's policy

The post-election political arrangement in the Bundestag weakens the supporters of an intensification of the eurozone's integration and limits Chancellor Merkel's room for manoeuvre. The present grand coalition CDU/CSU-SPD has a majority of only 44 votes, and so Merkel must take into account the opinion of opponents in her own ranks more than in the past, especially given the fact that her position has significantly weakened over the past few months. She has been criticised for the poor result achieved the Christian Democrats achieved in the election, for abandoning conservative values and, above all, for the continuing political crisis caused by the negotiations during the formation of the new government.

France's proposals are not only opposed by the CDU, which fears above all the restriction of the Bundestag's extensive prerogatives in deciding on European policy, and the possibility of forming of a transfer union. Thorough changes in the EU are also opposed by the CSU. The chairman of their parliamentary group, Alexander Dobrindt, firmly rejected Macron's proposals, arguing that this is necessary to protect German interests. In European policy the CSU is traditionally focused on limiting the competences of the EU and bringing them back to the national level, including strengthening the role of the Bundestag. It is also opposed to the transfer union. These demands are gaining additional significance ahead of the local election in Bavaria scheduled for 14 October; the CSU may lose its one-party majority should the AfD makes it to the landtag. The CSU is also concerned that a compromise with France that goes too far might cause a shift in voter support towards its main competitors: the AfD and the FDP.

The Christian Democrats' resistance towards Macron's proposals has strengthened since the AfD and the FDP made it into the Bundestag. These parties are firmly opposed to making any concessions to France. The Green Party and theoretically the SPD still want the integration to be intensified. However, even though the Social Democrats have taken the positions of the minister of finance and vice chancellor (Olaf Scholz) and the minister of foreign affairs (Heiko Maas), they have so far been unable to show initiative in European policy. This is due both to internal problems in the party (including its focus on consolidating the grouping after the lost election and changing the party's president) and the lack of a coherent stance on Macron's reforms.

The first chapter of the coalition agreement titled 'Breakthrough for Europe' was a hint they were prepared to enter into a compromise with France. However, since the author of this section of the agreement, Martin Schulz, resigned from the function of the president of the SPD, no leading politicians have been left in this party who would defend thorough reforms of the eurozone. Unlike with the two previous ministers of foreign affairs (Steinmeier and Gabriel), Maas is not doing this, and he has agreed to the SPD's European competences being concentrated at the Ministry of Finance.

The statements heard from the minister of finance so far prove that he is willing to continue the main elements of the European policy pursued by the previous government, including the former minister of finance, Wolfgang Schäuble (CDU). Most Germans are also opposed to the reforms proposed by Macron. 45% of respondents do not agree to the formation of a common budget for the eurozone (23% support this solution), and 37% are opposed to the nomination of the common minister of finance (30% support this solution; public opinion polls conducted by the YouGov centre in October 2017).

Germany and France – the structural differences

The past few years have made the economic differences between the two countries more visible. While Germany is viewed as the EU's industrial centre, France is perceived as an economy of low competitiveness with serious structural problems and a public which resists any reforms. These disproportions are reflected well in the economic data. According to Eurostat, over the past decade, Germany's GDP *per capita* has increased from 116% to 123% of the EU average. Meanwhile, France's has been reduced from 109% to 104%. As regards unemployment, Germany, with a rate of 3.5%, has the second best result in the EU, while France's unemployment rate of 8.9% places it in the sixth worst position. There is also a significant difference in the levels of public debt: Germany's stands at 64.1% of GDP and France's is 97% of GDP. It was only the politicisation of the excessive debt procedure that saved Paris from a financial penalty (for failing to comply with the obligations to maintain the budget deficit below 3% of GDP) in 2009–2016.

These different economic backgrounds cause differences in the approach to the eurozone reform issue. Paris wants to develop solidarity mechanisms as part of the currency union that will guarantee it cheaper credit lines for the economy, at a level comparable to Germany. This would enable Paris to regain competitiveness in exports. It is also in France's interest to support southern countries such as Greece, Spain, Portugal and Italy with which it traditionally has strong economic bonds. Germany's stance is completely different. Germany is not interested in establishing closer co-operation as part of the eurozone because it benefits most of all from the present *status quo* and co-operation also with the countries which do not belong to the group. The Visegrad states alone generate 12% of Germany's trade volume (France is only 4%). Germany has so far capitalised on the crisis in the southern member states of the eurozone to make its position entrenched, developing political influence and reconstructing it towards the German economic model. This model assumes creating conditions that will force the southern members of the currency union to improve the competitiveness of exports and to conduct internal reforms. For this reason Germany is opposed to introducing strong financial solidarity mechanisms that would lift the financial markets' pressure off the member states and impose a heavy fiscal burden on German taxpayers.

Differences in the stances towards the USA

The protectionist trade policy adopted by President Donald Trump has laid bare further differences between Germany and France. An important goal of the French president's visit to Berlin was an attempt to develop a common stance on the USA ahead of the planned

visits of the two leaders to Washington: Macron's on 23 April and Merkel's on 27 April. Germany is ready to make some concessions to Trump because the United States is a major outlet for it and the most important source of its trade surplus. Merkel hopes, for example, that the reduction of customs duty on US car imports could open the way to negotiating a broader compromise. France's trade relations with the United States are much more balanced. This is the reason why Paris insists on pursuing an assertive policy with regard to the USA and is sceptical about entering into new trade agreements. President Macron is also the main advocate of taxing US internet corporations in the EU according to where they generate income. Germany is sceptical about this solution because similar regulations applied to German companies in China would lead to the loss of a share in the profits transferred from this market to Germany. The European Commission, which is vested with the main competences on conducting trade policy, has been making efforts to develop a compromise stance between France and Germany.

Possible developments

It seems that the scale of differences between Germany and France is so big that the development of comprehensive reforms of the eurozone are impossible in the immediate future. At the same time, Berlin will want to avoid playing the role of an opponent of reforming the eurozone, and will entrust its allies with this task (including Austria, the Netherlands, the Scandinavian countries and Central Europe). The ace that France has up its sleeve in its negotiations with Germany is the desire to reform the EU's asylum system. Germany's two major proposals on this issue are: establishing a quota distribution of the refugees and harmonising the principles of accepting refugees as far as possible, including the standardisation of the asylum procedure rules. It cannot be ruled out that the German-French compromise will be based on illusory reforms of the eurozone in exchange for supporting a 'road map' of the EU's asylum system reform. Germany may agree, for example, to offer financial support to France and the southern member states of the eurozone at the expense of shifting funds from the cohesion policy allocated to Central Europe in the negotiations of the EU's multiannual financial framework which are set to begin soon. The proposals of offering more funds to the regions which carry the heavier burden of providing assistance to refugees also point in this direction.