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# THE NEW GERMAN QUESTION: HOW EUROPE CAN GET THE GERMANY IT NEEDS

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## SUMMARY

Since the beginning of the euro crisis last year, there has been a kind of “unipolar moment” within the eurozone: no solution to the crisis was possible without Germany or against Germany. Although Germany has now signalled it will do what it takes to save the euro, much of Europe is worried about the way this will be done and even resentful about where Germany seems to be heading. Germans, on the other hand, feel betrayed by the European project with which they once identified perhaps more than any other member state. In fact, whereas Germans once saw the EU as the embodiment of post-war German virtues such as fiscal rectitude, stability and consensus, they now see it as a threat to those same virtues.

This brief aims to move beyond this dialogue of the deaf and outline what a new deal between Germany and the rest of Europe might look like. It shows how an increasingly eurosceptic Germany is tempted to “go global alone”. Meanwhile other member states are responding to the new Germany with a mixture of “hugging Germany close” and forming coalitions that could one day be used to balance German power if Berlin fails to recreate a legitimate basis for its role in the EU. It argues that Germany needs to recast its approach to economic governance to avoid the creation of a two-speed Europe; work with other big states to reinvent the European security architecture; and put its economic might at the heart of a push to develop a global Europe.

Rarely has Germany been as important in Europe – or as isolated – as it is today. Germany has had Europe’s biggest economy since integration began, but since the beginning of the euro crisis last year, there has been a kind of “unipolar moment” within the eurozone: no solution to the crisis was possible without Germany or against Germany. At the same time, from Greece to Libya, Germany has been seen as increasingly evasive, absent and unpredictable. Although Germany has now signalled that it will do whatever it takes to save the euro, much of Europe is worried about the way that this will be done and is even resentful about where Germany seems to be heading.<sup>1</sup> To many, it appears that an increasingly powerful and independent Federal Republic is renegotiating the two fundamental principles that have guided its foreign policy for decades: European integration and the western alliance. Some even suggest that Germany is laying the foundations for a new *Sonderweg*, or special path. While Germany is increasingly assertive in promoting an economic policy for the European Union, it refuses commitment on pressing foreign policy issues such as Libya, and increasingly charts its own relationship with China and Russia.

<sup>1</sup> See, for example, Anton Costas, “Quo vadis’ Alemania”, *El País*, 12 December 2010, available at [http://www.elpais.com/articulo/primer/plano/Quo/vadis/Alemania/elpepueconeg/20101212elpneglse\\_3/Tes](http://www.elpais.com/articulo/primer/plano/Quo/vadis/Alemania/elpepueconeg/20101212elpneglse_3/Tes); Miquel Noguera, “Rajoy recurre al orgullo nacional ante los ‘deberes’ de Merkel”, *El País*, 6 February 2010, available at [http://www.elpais.com/articulo/espana/Rajoy/recurre/orgullo/nacional/deberes/Merkel/elpepiesp/20110206elpepinac\\_8/Tes](http://www.elpais.com/articulo/espana/Rajoy/recurre/orgullo/nacional/deberes/Merkel/elpepiesp/20110206elpepinac_8/Tes); François-Xavier Petit, “Pour une Europe de l’anti-modèle allemand”, *Sauvons l’Europe*, 11 February 2011, available at <http://www.sauvonsleurope.eu/pour-une-europe-de-l%E2%80%99anti-modele-allemand/>; and Jan Krzysztof Bielecki, “Wychodzenie z kryzysu krótko nie trwa”, *Obserwator Finansowy*, 14 February 2011, available at <http://www.obserwatorfinansowy.pl/2011/02/14/wychodzenie-z-kryzysu-krotko-nie-trwa/>.

Yet many Germans feel more like victims than aggressors. In particular, they feel betrayed by the European project with which they once identified perhaps more than any other member state but no longer seem to. The mainstream media in Germany is rightly proud of the reforms that Germany has implemented during the past decade, which have boosted the productivity and competitiveness of a German economy previously burdened by the costs of unification. But the euro crisis has unleashed a wave of resentment about the perceived costs that Germany is now being asked to pay for others' profligacy. During the last year, German domestic discourse has been hijacked by populist sentiment: Germans allege that other European countries are "just jealous" or that "everyone wants German money". In fact, whereas Germans once saw the EU as the embodiment of post-war German virtues such as fiscal rectitude, stability and consensus, they now see it as a threat to those same virtues. Whereas many Europeans want Germany to save Europe, many Germans now want to be saved *from* Europe. True, many countries are exhibiting many of the same traits as Germany, but because of the size and location of Germany and the way that its "abnormality" formed the basis for European "normality", its new German euroscepticism could undermine integration and security within Europe, and in the process damage Germany's own interests.

The discrepancy between the discourse in many European countries and the mood in Germany itself is growing ever wider. For example, German elites tend to see the German economic and monetary model as the *only* solution for overcoming the euro crisis. They tend to believe that Europe would be a better place if everyone followed the German example. On the other hand, many other Europeans see Germany not only as the biggest beneficiary of the single market and the eurozone, but also as the country that benefits structurally both from the "one size fits all" monetary policy of the European Central Bank (ECB) and from current trade imbalances.<sup>2</sup> Those who make this argument see Germany's export-driven growth model, which has generated huge trade surpluses while reducing the share of individual income and consumption in its GDP, as part of the problem rather than its solution. At worst, this makes Germany into a second China. At best, it seems to them as if Germany is seeking to impose its own social and economic model on others in the eurozone – what might be called the "Berlin consensus" – paradoxically, at the very moment that the German economy outgrows Europe. Some commentators argue that the EU could function with a German-led economic policy and an Anglo-French foreign policy. But it is neither realistic nor desirable to assume that Germany, an economic hegemon with global commercial interests, would limit itself to the role of a bystander on foreign policy issues.

<sup>2</sup> See, for example, Ben Hall, "Lagarde criticises Berlin policy", *Financial Times*, 14 March 2010, available at <http://www.ft.com/cms/s/0/225bbcc4-2f82-11df-9153-00144feabdc0.html#axzz1E7RoInnk>; and John Vinocur, "Germany Suffers a Fit of Willfulness", *New York Times*, 22 March 2010, available at [http://www.nytimes.com/2010/03/23/world/europe/23iht-politicus.html?\\_r=1&ref=johnvinocur](http://www.nytimes.com/2010/03/23/world/europe/23iht-politicus.html?_r=1&ref=johnvinocur).

This brief aims to move beyond this dialogue of the deaf and outline what a new deal between Germany and the rest of Europe might look like. The first section of the brief explains some of the fundamental domestic changes in Germany since reunification and how these have led to a new German euroscepticism. The second section explores how these changes create a temptation for Germany to "go global alone". Within the EU, it shows how Germany is revising each of the four pillars of European integration (the Franco-German relationship, the role of the European Commission, the disproportionate influence of small states, and Germany's willingness to pay more without getting more formal power). It shows how, outside the EU, Germany is breaking free from its reflexive Atlanticism and revising the role it has played within the post-Cold War security architecture. The third section shows how other member states are responding to the vacuum created by Germany's revisionism – using a mixture of "hugging Germany close" and forming coalitions that could one day be used to balance German power if Berlin fails to recreate a legitimate basis for its role in the EU. The final section makes some suggestions for a new approach to Germany within the EU and at a regional and global level. It shows how Germany needs to recast its approach to economic governance to avoid the creation of a two-speed Europe; how Germany must work with other big states to reinvent the European security architecture; and how Germany could benefit from putting its economic might at the heart of a push to develop a global Europe. Rather than mourning the loss of the old Bonn Republic, other member states need to understand the interests of the Berlin Republic and persuade Germany that it stands to gain more from making the development of a European policy its central goal than from succumbing to the temptation of going global alone.

## Requiem for the Bonn Republic: the new German euroscepticism

Twenty years after reunification, a new Germany has emerged that is very different from the old Federal Republic. This Germany may seem more assertive and more nationalist. But while it appears stronger from the outside, it also feels more fragile from the inside. The old Federal Republic, based on Rhineland capitalism and the social market economy, had a consensus-driven political system, with strong trade unions, a relatively even distribution of national wealth, a functioning social elevator, good public schools, and a public health system that was accessible to all. Today's Germany, on the other hand, is older and poorer and faces more social problems than it used to. It is anxious about immigration, lags behind many OECD countries in terms of issues such as gender equality and child day care, and has an education system with huge flaws.<sup>3</sup> In eastern Germany the "flourishing landscapes" that former chancellor Helmut Kohl promised

<sup>3</sup> For example, Germany performs badly in the OECD Programme for International Student Assessment (PISA), a study of educational attainment. See [http://www.pisa.oecd.org/pages/0,3417,en\\_32252351\\_32236225\\_1\\_1\\_1\\_1\\_1,00.html](http://www.pisa.oecd.org/pages/0,3417,en_32252351_32236225_1_1_1_1_1,00.html).

have not materialised, and even in western Germany many regions and towns are close to insolvency.<sup>4</sup>

The political system has also fragmented: neither of the two main parties that in the past supported European integration – the so-called Volksparteien – can any longer hope to win 40 percent of the vote. The liberal Free Democrats – the party of Hans-Dietrich Genscher, Kohl’s pro-European foreign minister – have become more eurosceptic in the past year. Meanwhile, on both the left and the right, openly eurosceptic parties such as the Linke, or Left party, have become stronger. This leaves the Greens as the only party that argues in favour of European integration in the way that Kohl used to. As a result, political leadership – particularly that of the paternalistic, pro-European variety – has become much harder. Whereas in the past German chancellors could override public opinion on critical foreign policy questions – as Konrad Adenauer did on rearmament in 1955, Willy Brandt did on the Ostpolitik in 1972, and Kohl did on the stationing of US missiles in Germany in 1983 and again on the euro in 1992 – today’s leaders face a much more fissiparous and complex political landscape. The current year, in which seven regional elections take place, gives some idea of the complexity of the pressures on German politicians.

Generational change has also had an impact on German attitudes to Europe. The attitudes of previous generations of German leaders were shaped to a large extent by 1945, 1968 or 1989. But members of Germany’s 1989 generation – in other words, those whose political consciousness was formed after the fall of the Berlin Wall – have completely different attitudes to Europe than older Germans.<sup>5</sup> The bulk of young people have been shaped by 9/11 and the economic crisis rather than the end of the Cold War or World War II. As a result, they tend to take Europe for granted. At the same time, ease of travel has made Europe seem less exciting than it used to be: today’s young Germans are curious about Asia in the same way that previous generations were about Europe. In short, German foreign policy is no longer informed by the same powerful collective memories as it was for much of the post-war period. Of 662 members of the Bundestag, only 38 held seats before 1989, and there were 192 newcomers alone at the last election, in 2009. Young parliamentarians in the Bundestag freely admit that they do not know “where to go with Europe” and which narrative to build.<sup>6</sup>

Germany’s economic base has also been shifting away from Europe towards the so-called BRICs. For example, German exports to China grew by over 70 percent in the 18 months from the beginning of 2009 to mid-2010. Goldman Sachs has projected that, assuming trends remained unchanged for the next 18 months, German exports to China would be roughly at the same level as exports to France by the end of 2011.

Given the volatility of these figures, there is a high degree of uncertainty. Moreover, 60 percent of German exports still go to the eurozone. Nevertheless, there can be little doubt about the growing importance of China for German exporters. Germany’s exports to China also dwarf those of other member states: in January to August 2010, it was responsible for 47 percent of EU exports to China, with the other 26 member states competing for the remaining 53 percent.<sup>7</sup>

As a result of these long-term changes in Germany since reunification, euroscepticism has become more socially acceptable, if not chic. Admittedly, the German public never established an emotional connection with the euro: 80 percent of Germans were against its introduction but reluctantly accepted it as a trade-off for reunification. However, since 2002, when the new currency became reality and, many Germans believe, made things more expensive, public opinion has hardened against the euro. European regulation also turns Germans off Europe – much as it has long done in other member states.<sup>8</sup> The Greek crisis last year seems to have been the straw that broke the camel’s back.<sup>9</sup> A recent opinion poll shows that 63 percent of Germans have little or no confidence at all in the EU. For 53 percent of Germans, Europe is no longer the future.<sup>10</sup>

Perhaps even more alarming than this eurosceptic shift in public opinion is the way that the German elites have lost faith in the European project. To be sure, there were always eurosceptic voices in Germany, but they tended to be marginal. Since the era of Gerhard Schröder, who spoke of German “normality”, German elites have been increasingly critical of the EU, which in turns legitimates popular euroscepticism. The most important and well-known expression of this new German euroscepticism is the 2009 judgment of the German Constitutional Court on the Lisbon Treaty.<sup>11</sup> But the new eurosceptic mood can also be felt elsewhere in German life – for example, in the media. Economists who had been arguing against the euro since 1992 also feel vindicated by the euro crisis. Other respected public figures are also attacking the euro – for example, Hans-Olaf Henkel, the former president of the BDI, the German employers’ federation, whose book *Save our Money!* has been a bestseller.<sup>12</sup> Rather than denouncing the book, as an earlier generation of politicians might have done, the German economics minister, Rainer Brüderle,

<sup>7</sup> Figures from Eurostat 2011, p.97-98. Available at [http://epp.eurostat.ec.europa.eu/portal/page/portal/external\\_trade/documents/ExtraIntraMonthlyEUTrade\\_ENV012-2010.pdf](http://epp.eurostat.ec.europa.eu/portal/page/portal/external_trade/documents/ExtraIntraMonthlyEUTrade_ENV012-2010.pdf).

<sup>8</sup> Isabell Hoffmann and Franziska Brantner, “Europakritik wird schick”, Bertelsmann Spotlight Europe, Mai 2009, available at [http://www.bertelsmann-stiftung.de/cps/rde/xber/SID-09B9F355-09390693/bst/Deutsch\\_spotlight\\_Europakritik%20wird%20schick\\_09-05-18.pdf](http://www.bertelsmann-stiftung.de/cps/rde/xber/SID-09B9F355-09390693/bst/Deutsch_spotlight_Europakritik%20wird%20schick_09-05-18.pdf).

<sup>9</sup> According to an opinion poll carried out by Allensbach, confidence in European integration dropped by 10 percent between April 2010 and January 2011. See Thomas Petersen, “Gemeinsames Interesse für Europa in Gefahr”, *Frankfurter Allgemeine Zeitung*, 25 January 2011, available at <http://www.faz.net/s/Rub99C3EECA60D84C08AD6B3E60C4EA807F/Doc-EAE005CA324524217B16D205CA47FBE88-ATpl-Ecommon-Scontent.html>.

<sup>10</sup> Ibid.

<sup>11</sup> On the Lisbon judgment, see Christian Callies, “Unter Karlsruher Totalaufsicht”, *Frankfurter Allgemeine Zeitung*, 25 March 2011, available at <http://www.faz.net/s/RubD5CB2DA481C04D05AA471FA88471AEF0/Doc-EF0962EB356F645848BE2400A391F805A-ATpl-Ecommon-Scontent.html>.

<sup>12</sup> Hans-Olaf Henkel, *Rettet unser Geld! Deutschland wird ausverkauft - wie der Euro-Betrug unseren Wohlstand gefährdet* (Munich: Heyne, 2010).

<sup>4</sup> German local authorities expect a deficit of some €9.6 billion in 2011. See “Deutschen droht weitere Gebührenexplosion”, *Handelsblatt*, 14 February 2011, available at <http://www.handelsblatt.com/politik/deutschland/deutschen-droht-weitere-gebuehrenexplosion/3824196.html>.

<sup>5</sup> See Claus Leggewie, *Die 89er. Portrait einer Generation* (Hamburg: Hoffmann und Campe, 1995).

<sup>6</sup> Interviews with the authors, 26 January 2011.

actually spoke at its launch.<sup>13</sup> In short, the reflexively pro-European discourse among Germany's elites has disappeared.

In a sense, it is a good thing that Germany is now having an open discussion about Europe for the first time. However, no new narrative has yet emerged to replace the idea of European integration as a matter of war and peace. Few political figures in Germany seem willing or able to defend the idea of Europe as a way to further German interests on issues such as energy policy, the labour market or migration. Rather, as its response to Libya illustrates, Germany lacks ambition and a strategic vision for Europe and seems to think it could become a larger version of Switzerland. As a result, the discourse on Europe has become somewhat provincial and inward-looking, driven by populist fears. Increasingly, Europe is seen as a problem for Germany rather than the solution for Germany's problems. A new generation of politicians and officials now examines the costs of Europe and the euro in the way an accountant does – carefully parsing the costs and benefits of each proposal for integration – but it does not think about the costs of non-participation in Europe or the euro. This kind of calculation ignores the history of Europe and the euro as a political as well as economic project.

Of course, Germany is not the only member state that has become more eurosceptic in recent years. In fact, from Finland to Hungary, an anti-European and nationalist virus is currently spreading across the EU. But because of Germany's size and the special role it played in European integration, its eurosceptic shift has greater consequences for Europe as a whole than that of some other member states. For most of the post-war period, the Federal Republic had a symbiotic relationship with Europe: the interests of the two were aligned. But this synergy depended on the peculiar situation in which West Germany found itself during the Cold War. In other words, European "normality" was based to a large extent on West German "abnormality". Now that the reunified Germany is becoming more "normal", it is undermining European "normality". In particular, the new Germany is by default challenging two orders that were fundamental to the European project: the integrationist order that was enshrined in Maastricht and the transatlantic revision of the Yalta order that took shape after the end of the Cold War.

## The temptation to go it alone

Between 1949 and 1989, the two fundamental principles of the foreign policy of the Federal Republic were the transatlantic alliance and European integration. But, since reunification, Germany has begun emancipating itself both from the Maastricht order it helped forge within Europe and the post-Yalta settlement that defined its role at a global level. Many of the changes that are taking place are natural consequences of history and reflect the process of growing

up into a "normal" power – which was initially welcomed by its European partners. But the concept of "normality" is also problematic because it tempts Germany to see itself as a viable power in a multipolar world, which in turn leads to the temptation of going global alone. As Berlin steps back from the dual principles of the Atlantic alliance and European integration, there may be a fear among its partners that Germany might become "unbound".

### *Revising Maastricht*

Since the end of the Cold War, the symbiotic relationship that existed between Germany and the rest of Europe has gradually weakened. Germany played a special role in European integration: it cooperated closely with France to push forward initiatives, supported small member states, strengthened the European Commission and the European Parliament, and paid for compromises without demanding political representation to reflect its disproportionate financial contributions. But 20 years after reunification, Germany is renegotiating each of these four planks of its relationship with the EU.

First, the Franco-German tandem has become unbalanced in Germany's favour. The original deal was between an economically strong (but politically and militarily weak) Germany and a politically strong (but economically weak) France. This was the essence of what Stanley Hoffman called the EU's "symmetry of the asymmetrical".<sup>14</sup> However, the deal has for some time been collapsing as a result of three forces: the enlargement of Europe which has shrunk the relative size of the core and increased the relative size of the periphery; the growing gap between French and German economic performance; and the onset of the financial crisis, which has increased the salience of economic might. Former European Commission President Romano Prodi has described the change in the division of labour in brutal terms. "It used to be that France was the political driver and Germany the economic one", he said. "Now it is the lady [German Chancellor Angela Merkel] that decides and [French President Nicolas] Sarkozy that holds a press conference to explain her decisions."<sup>15</sup>

Second, Germany has fallen out of love with the European Commission. In an important speech in Bruges in 2010, Merkel announced a shift from the "community method" of European integration through the commission to a new intergovernmental "Union method".<sup>16</sup> This seems to be partly a result of the German Constitutional Court's growing hostility towards the commission.

<sup>14</sup> Stanley Hofmann, *The European Sisyphus: Essays on Europe, 1964-1994* (Boulder, Colorado: Westview Press, 1995).

<sup>15</sup> European Council on Foreign Relations event, Rome, 9 February 2011.

<sup>16</sup> Chancellor Angela Merkel, speech, Bruges, 2 November 2010, available at <http://www.bundesregierung.de/Content/DE/Rede/2010/11/2010-11-02-merkel-bruegge.html>.

<sup>13</sup> See Thorsten Denkler, "Welterklärer trifft Problembär", *Süddeutsche Zeitung*, 1 December 2010, available at <http://www.sueddeutsche.de/wirtschaft/hans-olaf-henkel-bruederle-stellt-buch-vor-welterklaerer-trifft-problemaer-1.1030738>.

Third, Germany has increasingly forgotten about the small countries – itself a result of Germany’s sidelining of the commission.<sup>17</sup> This shift also reflects a relative increase in the role of the chancellery and a relative decrease in the power of the foreign ministry – which, for example, was not even informed about Merkel’s Bruges speech.

Fourth, Germany has gradually become less willing to pay more for Europe than other member states while restricting its formal representation to the same level as that of other large member states. Since Schröder was chancellor, Germany has openly defended its national interests in Europe, without feeling the need to present these interests as European. Under his leadership, Germany pushed for greater representation in the European Parliament and also clearly benefitted from the “double majority system” in the Lisbon Treaty, which has increased the number of German votes in the European Council. In addition, Germany has since 1999 challenged the idea that it is willing to be Europe’s deep pocket and sought to limit the size of the EU budget. But, with the creation of the European Financial Stability Facility (EFSF) and the putative European Stability Mechanism (ESM), Germany has signalled that when it takes on a disproportionate part of the financial burden – as it has done in the bailouts of Greece and Ireland – it will now demand a formal voice that reflects its financial commitment. In these intergovernmental mechanisms, which have been designed outside the formal EU institutions, voting power is linked to financial contributions, which gives Germany greater weight.

In retrospect, we can see that Maastricht was the high water mark of the old German approach. In 1992, it agreed to give up the deutschmark for the euro and to have the same number of votes in the European Council as France, even though it had a much larger economy and population. But with hindsight we can see that this vision started to unravel as the Franco-German relationship gradually soured. The critical junctures were the French refusal of the Schäuble-Lamers paper on political union in 1994 (which some Germans saw as a betrayal), the German push for a greater number of votes in 2000 (which François Heisbourg called “the Suez” of the Franco-German relationship), and the French rejection of the European constitution in 2005.<sup>18</sup>

Underlying Germany’s reluctance to be the deep pocket of Europe is a growing sense in economic circles that Germany is outgrowing the single market. It was one thing to invest disproportionately in an EU that was central to Germany’s economic future, but quite another proposition to invest in the fiscal stimulus of southern European states when Germany’s economic growth increasingly depends on its trade with rising powers. This sense was encapsulated in the claim that “Germany needs the BRICS more than the PIIGS”,

which did the rounds at the Bundesbank in 2010. This claim is not supported by the economic evidence: Germany still trades more with the EU than any countries outside it and its trade with the south of Europe has grown massively since the euro was introduced – but it represents a growing body of opinion which extends across the German media. German newspapers have tended to present the problems of the euro and the sovereign debt crisis primarily as a result of others’ profligacy and have stoked fears of the EU becoming a “transfer union” in which a growing EU budget redistributes from rich to poor member states.

The exit strategies that the German government has pushed (the so-called Euro Plus Pact, which forces member states to translate European fiscal rules into national legislation) are all designed to suit the German public discourse, but do not necessarily address the core problem: the banking crisis that sits alongside Europe’s sovereign debt and currency crises. There are many in German society – from parliamentarians to bankers – who have conspired to keep the issue of the liquidity of German banks off the political agenda. In fact, it is only now that German media and officials are beginning to admit to their citizens that monetary union was flawed from the beginning, that the bailouts of heavily indebted countries helped to protect Germany’s own banking system, and that the interdependence of European economies is so great that it is in German interests to save the euro and move towards more economic integration.

Whereas in the past, big German companies felt responsible for Germany’s image abroad and put pressure on the government to be a good European citizen, today’s CEOs have moved beyond Europe in their thinking and don’t feel a need to defend the European project. Ernest-Antoine Seillière, the former head of BusinessEurope, the European business federation, has argued that “Germany is tempted to go it alone in the multipolar world: they are the biggest economy with global competitiveness, a stable social structure, good relations with Eastern Europe and Russia, and a global reputation for being the world’s biggest exporter of machine tools.”<sup>19</sup>

### *Revising the post-Cold War order*

As well as challenging the Maastricht order, Germany is challenging the order that Americans and Europeans built after the end of the Cold War. Germany’s abstention on United Nations Security Council Resolution 1973 on the Libyan no-fly zone was the latest piece of evidence that the Federal Republic is renegotiating its post-Yalta foreign policy role on regional and global issues. Germany has been calling for a permanent seat at the UN Security Council since 1992, but most observers thought Germany would be firmly embedded in the NATO alliance and the EU rather than use its seat to express an independent German approach to the world. Few would have predicted a decade ago that Germany would use

<sup>17</sup> See Jean Pisani-Ferry, “The Eurozone According to Merkel”, Project Syndicate, 15 February 2011, available at <http://www.project-syndicate.org/commentary/pisaniferry9/English>.

<sup>18</sup> François Heisbourg: “Nice: un Suez diplomatique”, *Le Monde*, 26 December 2000.

<sup>19</sup> Interview with the authors, 27 October 2010.

its seat to line up with Russia and China against France, the US and the UK. Even if Merkel's behaviour following the vote seems to indicate that she regrets the abstention, the development of a foreign policy stance that is less reflexively aligned with the EU and the US does seem to be part of a wider trend.

During the Cold War, West Germany was completely embedded in the Atlantic alliance (there may have been tensions from Ostpolitik to Pershing missiles, but these were all clearly disputes within the western family). In the first decade after reunification, others looked to Germany as a lynchpin of post-Cold War European foreign policy, mediating between Britain's semi-detachment from the EU and France's anti-Americanism. Germany was seen as a slightly passive, geopolitical stabiliser – reliably Atlanticist, pro-enlargement and committed to changing Russia in a way that did not involve confrontation, and willing to bankroll Europe's expensive neighbourhood policies. Since the Constitutional Court allowed Germany to commit troops to "out of area" missions, Berlin has also played an important role in stabilisation missions in the Balkans and Afghanistan.

Since the Iraq war, however, Germany has become less Atlanticist. Berlin increasingly deals with Washington in a pragmatic bilateral manner, not least since the US itself is withdrawing from European security issues while maintaining its commitment to Article V of the North Atlantic Treaty. As Berlin's support for enlargement has become more contingent (although it has stopped pushing Turkish accession, it has not followed France in seeking to block the opening of negotiations on new chapters), Germany and Russia have become structurally closer as economic ties have grown. Critics saw the approach to Russia of Schröder – who called President Vladimir Putin a "flawless democrat" and signed a deal to create the Nord Stream gas pipeline – as economically-driven appeasement. Although business deals remain a key part of the picture under Merkel, the relationship has become more balanced and German diplomacy towards Moscow has at times been very creative. For example, at the Meseberg summit last year, Berlin proposed a strategic dialogue between the EU and Russia, but made it contingent on Russian help in resolving the Transnistrian conflict. However, these approaches have too often not been sufficiently embedded in a common European approach. And they coincide with a continuing unease about military power which has acted as a barrier to the development of European defence (in spite of the coalition agreement's commitment to building a "European army").

Some of Berlin's new, non-aligned foreign policy is the result of the structural changes that Germany has undergone since reunification, which, in retrospect, were inevitable. With the end of the Cold War, Germany no longer needs to rely on an American security guarantee for protection. It is also understandable that German military authorities are frustrated by the fact that, after making huge efforts to participate in missions such as Afghanistan, other powers such as the UK and the US should be so critical of the caveats under which the Bundeswehr operates. Is it not better and

easier to take a principled stand against the French and the British, rather than get dragged into playing a supporting role to their grandstanding?

Germany's new independent "neo-mercantilist" foreign policy also reflects changes in the nation's definition of its interests brought about in particular by the changes in its economy in the last decade. As Germany's economy has shifted from the eurozone to the BRICs, it is increasingly tempting for it to go it alone in foreign policy. Germany still sees Europe as very important, but it is considered increasingly slow, complex and costly, with a return on investment that no longer seems assured, visible or transparent for many of its elites. While Germany remains committed to a European foreign policy, it is not prepared to see its economy held back or pulled down by the rest of Europe.

## Re-taming German power: how Europe is responding to the Berlin Republic

Germany's revisionism of the post-Maastricht and post-Yalta orders has created a strategic vacuum within the EU, which neither Germany nor other member states have yet succeeded in filling. In a way, Germany was the most reluctant to discard the Maastricht order, because it feared taking on further responsibility for Europe. As an important German official put it to the authors in the first half of 2010: "We do not want to lead the EU. We just want the others to obey the rules." But as time has gone on, even this official was forced to admit that "non-leadership is a kind of leadership". Germany now faces a choice: it can either recommit to partnership with the rest of the EU – and exercise benign economic hegemony within the eurozone as the price for this commitment – or it can be a more "normal" EU member state that pursues its national interests in a narrower way. However, if it chooses the latter option, it will increasingly face conflict with other member states, which are likely to pursue a variety of strategies that have been used in the past to respond to the power of hegemony.<sup>20</sup>

Over the last few years, as the EU has become bigger, with a more diverse range of competing interests, progress has often been made by "minilateral" coalitions – small groups of member states cooperating to develop new initiatives. In the past year, as German power has increased, minilateral coalitions are increasingly forming around Germany as other member states choose to accommodate German power and, in doing so, attempt to ensure that it is used to their benefit. For example, in order to safeguard France's AAA status, President Sarkozy has curtailed his criticism of German economic management and traded his earlier role as an informal spokesperson for the interests of the debtor countries (the so-called PIIGS) for a new one as Germany's partner in managing the euro crisis. Other member states have also aligned themselves with Germany on

<sup>20</sup> The strategies in this section are adapted from Stephen Walt's analysis of how countries have responded to US hegemony. See Stephen M. Walt, *Taming American Power* (New York: Norton, 2005).

various issues. Creditor countries such as Finland have tacitly hidden behind the German position on the euro crisis and the President of the European Council, Herman Van Rompuy, has chosen to make himself the spokesperson of German economic demands. Meanwhile, British Prime Minister David Cameron has supported Merkel in trying to limit the size of the EU budget in exchange for acquiescence to German demands for institutional change. Poland has similarly aligned itself with Germany on policy towards Russia, which has healed the painful splits between Germany on Russia during the Lech Kaczynski era. Poland and Germany's respective foreign ministers, Radek Sikorski and Guido Westerwelle, made a joint intervention before the election in Belarus in December 2010.

But although it currently looks as if other member states are lining up to hug Germany close, some of the very same states are also likely to try to block German initiatives in the future. A very senior official in Madrid explained the situation well: "We are in a Europe with a single driver. Berlin prefers to move with France as it is more palatable, but all the big impulses come from Berlin. However, decision-making is different from launching policies: you need to get agreement from the other 16 in the eurozone." During the last year, member states have in this way obstructed the adoption of a new treaty, the appointment of Axel Weber as head of the European Central Bank, and the adoption of "automatic" sanctions against countries that breach the competitiveness pact.

In fact, coalitions of member states are already forming against Germany as well as around it. For example, although the Franco-British defence deal was about saving capabilities in the two big defence spenders, it has been seen in some quarters as a way for France to diversify its political base in Europe. Similarly, although the Nordic-Baltic summit in January was designed to exchange advice about the internal competitiveness agenda, one Nordic foreign minister suggested in an interview with the authors that this could one day turn into a northern league to balance Franco-German activism in places such as Deauville. Some people have even interpreted Sarkozy's decision to sell Mistral ships to Russia as a way of challenging Germany's hold on the bilateral relationship with Russia.

Another strategy deployed by member states is blackmail. One of the reasons that German public opinion is so hostile to the debtor countries is that they feel that the Greeks and Irish are blackmailing them by threatening to destabilise the whole euro if Germany does not bail them out. There is some truth to this. In fact, international relations theory has long shown that multilateral alliances in which one state controls a disproportionate share of overall resources inevitably encourage free riding.<sup>21</sup> The reason this happens is that the most powerful state's allies know that it will provide the collective good out of its own self-interest, and the weaker members can therefore spend a smaller percentage of their

own wealth and still feel safe. Even when they accede to German demands, member states are also likely to drag their feet – as they did when Merkel demanded a change to the European treaties.

Finally, some states will likely also try to undermine Germany's legitimacy. For example, when Greece was ordered to slash spending and raise taxes in exchange for a €10 billion bailout, the country's Deputy Prime Minister Theodoros Pangalos said that the offspring of Nazis had no right to issue orders to Greeks, the newspaper *Ethnos* wrote that the Germans were turning Europe into a "financial Dachau", and the mayor of Athens drew up an €80 billion invoice for the Wehrmacht's occupation of Greece during World War II. In Ireland, Spain and Portugal, politicians and officials have also blamed Merkel for fanning the crisis and have fuelled the rising anti-German sentiments that have been encouraged by the tabloid press.

## Seven Strategies for Re-taming German Power

International relations has various theories to explain how weaker states deal with more powerful ones, involving a combination of "band-wagoning" and "balancing". We can already see seven variants being developed to re-tame German power:

- 1. Riding the Tiger:** Accommodating German power – and, in doing so, attempting to ensure that it is used to their benefit.
- 2. Anti-German Coalitions:** Balancing German power by banding together against Germany or by developing alternative coalitions.
- 3. Binding Berlin's Hands:** Trying to bind German power within the constraints of international institutions and norms.
- 4. Blackmail:** Attempting to extract concessions from Berlin by threatening it with undesirable consequences.
- 5. Attrition:** Just saying no to German demands – or saying yes and then dragging one's feet.
- 6. Blackening Germany's Name:** Attacking German legitimacy and using this to weaken German power.
- 7. Copying Bad Behaviour:** Emulating Germany's focus on "national" or "core" interests – which will make the EU ungovernable (e.g. the Slovakian parliament's refusal to take part in the Greek bailout).

<sup>21</sup> M. Olson and R. Zeckhauser, "An Economic Theory of Alliances", *The Review of Economics and Statistics*, 48(3), 1966, pp.266-279.

## A new deal for Europe

Unless Germany finds a new way to work with its European partners, these strategies for taming German power could end up thwarting Germany's interests – while at the same time leading to deadlock within the EU. However, in order to persuade Berlin that it stands to gain more from making the development of a European policy its central goal, member states should not only point out to Germany the dangers of going it alone, but also develop incentives for Germany to play a more positive role within the EU. They should make it in Germany's interests to put all its eggs into a European basket on three levels: a new deal on economic governance within the EU, a new approach to regional security, and a vision for a global Europe that advances the interests of all member states in dealings with rising powers such as China.

### *Economic governance within the EU*

Germany has now signalled that it will do whatever it takes to save the euro, showing a determination that few predicted at the start of 2010. Through the new Euro Plus Pact it seems inevitable that there will be deeper integration of the eurozone. But there is a danger that these attempts to save the euro could also lead to a two-speed Europe in one of two possible ways. The first possibility is that a deepening of integration of economic policy among the 17 eurozone countries could lead to a split between them and the other 10 member states who could find access to the single currency much more difficult and even find themselves permanently excluded. The second possibility is of a deeper schism between debtors and creditor countries, with a growing divergence between the competitiveness of these two groups as a result of the "bail-in" and the continuing debt burden on indebted countries.

The first threat is reinforced by Germany's disillusionment with the European Commission. Merkel initially explored the possibility of changing the treaties to allow a response to the crisis within the existing institutions. But when it was clear that it would be impossible to get member states to support significant treaty reform, the momentum shifted towards intergovernmental mechanisms for crisis management that are now clearly sidelining the European Commission. Moreover, when Cameron indicated that the UK would not be part of the new stability mechanism, it became impossible for Merkel to resist French attempts to move decision making from the EU-27 to the 17 eurozone countries. Britain's self-defeating obsession with sovereignty and the eurozone's new cooperation outside the treaties could potentially result in weakening the EU institutions and increasing the risks of their incremental paralysis (although the Schengen Treaty offers a more encouraging precedent).

The second rift within the EU is partly a result of Berlin's perception of the euro crisis. It has tended to blame the crisis on indebted countries, thereby making them entirely responsible for fixing Europe's imbalances, while overlooking the fact that Germany, with its surplus economy, cannot be

a model for all. Moreover, Berlin's focus on competitiveness and the sovereign debt crisis hides the fact that the euro crisis is also a systemic banking crisis in which the German *Landesbanken*, or state banks, are particularly vulnerable.

In order to avoid a two-speed Europe, a new deal is needed between creditor and debtor countries, which should avoid throwing good money after bad. Debtor countries such as Greece need to accept the strictures of the competitiveness pact, but creditor countries such as Germany also need to show greater flexibility in dealing with the roots of the crisis. This is also the only way to prevent the growth in years to come of anti-German sentiments resulting from austerity policies in the periphery on the one hand, and German "paymaster" populism on the other.

First, a pan-European banking regulator is needed in order to conduct stress tests in a tougher and more independent fashion. (This would also be an important move back towards the community method.) Second, member states should change the terms of the EFSF to allow it to recapitalise banks as well as member states, thereby allowing sovereign debt to be restructured without precipitating a banking crisis. Third, as Frank-Walter Steinmeier and Peer Steinbrück have argued, the EU should think about creating euro bonds to ensure that countries that have restructured are not saddled with crippling interest rates on their remaining debt.<sup>22</sup>

It will be impossible to get this new deal within the constraints of the current German political debate. In order to challenge the perceptions of ordinary Germans, other member states will need to start communicating directly with the German public. They should highlight both the enormous economic benefits that Germany gets from the eurozone and the single market – as well as the fragile position of the German banks and the fact that taxpayers in other countries are in effect being asked to surreptitiously bail them out.

### *European regional security*

Berlin's decision to line up with Brazil, Russia, India and China in the vote on UN Security Council Resolution 1973 has caused some to wonder if Germany is moving towards a non-aligned foreign policy – like the BRICs – rather than investing whole-heartedly in the development of a European Common Foreign and Security Policy (CFSP). Germany certainly has some interests in common with these emerging markets: an export-oriented economy and a reluctance to get embroiled in conflicts in far-off places. For many years – in spite of the fact that the government's coalition agreement commits Germany to developing a European army – Berlin has been reluctant to invest in European defence, fearing that France would enlist German support in fighting wars in its former colonies while stealing its high-end military technology. In

<sup>22</sup> Frank-Walter Steinmeier and Peer Steinbrück, "Germany must lead fightback", *Financial Times*, 14 December 2010, available at <http://www.ft.com/cms/s/0/effa001c-07ba-11e0-a568-00144feabdco.html>.



2011, it is Germany which is again making the deepest cuts to its defence spending, while it is closest to balancing its overall budget. Moreover, Germany's economic bilateral relationships with other major powers are so significant that there is always a temptation to pursue them bilaterally rather than through the EU.

However, this characterisation of German foreign policy ignores the very significant role that Germany has started to play within Europe's own region. Merkel and Westerwelle have made restoring relations with Poland a key priority for the government. The fact that trust has now been restored between these two powers which found themselves on opposite ends of the European spectrum in their approaches to Moscow has allowed a European reset to take place. Berlin showed real leadership and creativity in tying progress on the Kremlin's priority of a European security dialogue to real help from Moscow in solving the Transnistrian conflict. Berlin then tried to set up a parallel process with Turkey by asking Ankara for help in resolving the Bosnian question. In reaching out to Poland, and challenging Russia and Turkey to become responsible stakeholders on resolving regional conflicts, Berlin has started to show a different kind of leadership on European security. Unfortunately, however, other member states have not done enough to embrace the vision set out by the Germans at Meseberg. The core approach was taken up in a summit with Sarkozy and Medvedev at Deauville, but the format of this meeting invited suspicion from other member states rather than support. The rest of the EU – under guidance from Germany and Poland – should now sign up to this approach.

Germany has been less active in the southern neighbourhood. However, Berlin won many friends in the EU when it pushed to keep Sarkozy's Union for the Mediterranean within the EU-27. Even though Germany is not a Mediterranean power, Westerwelle has been trying to carve out a new approach to the region after the so-called Arab Spring.

What can the EU offer Berlin in its dealings with neighbouring countries that it cannot get on its own? Senior German diplomats cite three sets of benefits: first, the ability to move forward in areas such as trade in which member states have pooled their sovereignty; second, legitimacy and an opportunity to avoid accusations of unilateralism; and third, a financial multiplier for its own initiatives towards non-European partners (the money in the EU's "partnership for modernisation" is significantly larger than that in Germany's bilateral scheme). Germany's relationships with Turkey and Russia could benefit from all three of these things. Conversely, the EU's neighbourhood policy will be stronger if it is owned by northern as well as southern member states.

The biggest challenge in the long term will be to bridge the gap between Germany and other large member states on the question of the use of force. Immediate steps should also be taken to heal the rift over Libya through patient diplomacy. It would be natural for London and Paris to harbour resentment at the way that Berlin behaved in the run-up to and immediate

aftermath of the UN vote. Conversely, many in Berlin are loquacious at the failings of Sarkozy's leadership. However, it is important for all players to put these divisions behind them – and for Germany to be given an important role in any "contact group" that is created to manage the conflict and its aftermath. The fact that Merkel travelled to Paris for the 19 March meeting which launched military operations in Libya was an important first step in healing the divisions before they become structural. Paris and London now need to show imagination to bind Berlin in for the long term.

The momentum of a future CFSP will depend on the approaches of the big three. France and the UK have a common responsibility to integrate Germany instead of reverting to a Franco-British entente cordiale. One way to do this would be for the European External Action Service (EEAS) to issue a new strategic White Book for Europe, helping to recreate a new strategic community in which German interests are mirrored in a wider European strategy that clearly goes beyond trade issues. If we accept that the post-Yalta order has come to an end, it is important for Europe's big states to revisit the dysfunctional European security arrangements and find ways of engaging Germany in a European attempt to re-craft relations with Russia, Turkey and the countries in between.

### *Europe in a G2 world*

The biggest temptation for German unilateralism is on the global stage, as Germany's international economic reach so dramatically outstrips all other EU member states: 27.3 percent of all EU exports come from Germany – several times the amount of France (12 percent), Italy (11.3), the UK (10.4), the Netherlands (7.4), Spain (4.5) or Poland (1.8). The question, therefore, is how other member states can use Germany's economic weight to develop a global strategy for the EU in a world that will be increasingly governed by a G2 of the US and China.

When Berlin is responsible for 45 percent of EU trade with China – the most significant of the emerging powers – will it take lessons from the other 26? Obviously not. But would Germany benefit from a common European stance to China? Probably yes. Although some German companies and officials might feel they can make more progress with a unilateral approach, many Germans understand that in the longer term Berlin will struggle to hold its own in a world of continent-sized powers.

Even though they have gained greater market share in China than other Europeans, major German firms understand that they also face risks from China's top-down and mercantilist economic system. They also witness increasing competition in their own backyard – the new member states of former Eastern Europe. With China, the arguments for German engagement in Europe are already becoming visible. Several German companies have already been evicted from markets after technology transfer and reverse engineering by Chinese

partners – Siemens, in particular, had a shock when its technology for high-speed trains was taken by a Chinese partner and then sold on at knockdown prices.

Although it is not China's neighbour, Germany may also ponder the fate of Japan – another high-tech, export-oriented economy with a similar post-war trajectory to Germany. Japan demurred from internationalisation of its currency. It failed to create in time a more integrated Asia, relying instead on the strength of its own firms to achieve practical – as opposed to institutional – integration. Japan has isolated itself – a situation aggravated by its declining demography, another trait shared with Germany. The world's former number two economy is now dealing with China from a position of weakness. Germany has the advantage of six decades of successful integration with its European neighbours, and a strong political compact healing the wounds from the past. But this advantage needs maintenance and new initiatives at times of crisis.

Some member states accuse Berlin of Europeanising those elements of the relationship that don't matter while pursuing a unilateral approach on those areas that do. Yet, taking China policy as an example, Germany can be easily outpaced by other member states if a competition to gain economic favours from China breaks into the open. Few other member states trust each other enough to really support, on a purely intergovernmental basis, a European approach to China and other great powers. The number of countries seeking a united and assertive political and economic approach is in fact shrinking. Even countries that were in favour of a tough economic strategy, such as Spain, Portugal, Greece and Poland, are now giving up the fight on sensitive issues such as anti-dumping or market access for public infrastructure projects. In 2010, the EU began to develop a better strategic approach to China based on reciprocal engagement, but this was undermined by the vulnerability of peripheral member states to Chinese "bond diplomacy". Unless member states get much better at coordinating their China policy very quickly and learn how to use their leverage (for example, China's need for advanced technology), there is a danger that they will be picked apart. This will leave Germany in a weaker position to deal with China, and in a situation much closer to Japan's situation of the last decade – in fact, since the Asian crisis of 1997-1998 killed prospects of an increased Asian integration.

In order to avoid this fate, Germany has to turn its present economic strength into a decisive advantage to push a European strategy. This may come through the adoption of a very select number of strategic priorities by High Representative Catherine Ashton for the high-level relationship with China. It may involve giving full support and advising European Commissioners in charge of the economic relationship. Coordination with Britain and France is also essential. Germany should be the driver of a European China policy that will increase Germany's leverage instead of descending into the situation of a mature, aging industrial nation which is undercut both by close competitors and by a rising power.

## The Germany Europe needs

"Nothing makes the Germans lose their composure as much as when trying to find themselves", the satirist Kurt Tucholsky once wrote. The most important thing to understand about the new Germany is, perhaps, that this country has rarely been in such a process of self-reinvention (internally and externally) than it is now. Germany is feeling the impact of reunification on its political system, its economy and its sociology – and is coming to realise that the model of the Bonn Republic no longer works. However, there is not yet a new national narrative about what Germany should be or wants to be – and what place in Europe it wants to occupy.

Germany needs help to become European again – but its new European role will be different to that of the past. By getting their own (economic) house in order, fellow European countries will provide Germany with optimal support for its difficult debate over Europe. The German public needs – rightly or wrongly – to be reassured that it is not being ripped off by its neighbours. Germany also needs help in finding equilibrium for its new power in the EU. The best way to persuade Germany to pursue its aspirations for a global role through the EU would be for other big countries to show a little more effort to be European in their choices themselves. Germany is too big to fail – it is the biggest country in Europe, but still not big enough to be Europe's hegemon. That means that the other 26 member states need to go through the same process of re-invention that Germany's elite have embarked upon, and design a new approach to Europe which can secure their national interests at a time when Germany has lost its romantic attachment to the EU. Understanding this could help the rest of Europe get the Germany it needs.

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