Germany and Political Union in Europe: Nothing moves without France[1]

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Abstract

This paper attempts to understand why after two decades proposing the creation of a political union to make European monetary union (EMU) sustainable, Germany has not utilised the 'window' offered by the Eurozone crisis to pursue more vigorously this goal. Using the conceptual devices of the Chartalist understanding of money and hegemony, three possible explanations are explored. 1) Germany is slowly becoming a 'normal' European power and has started to favour the intergovernmental to the community method. 2) The German public has lost its enthusiasm for European integration, especially after realising how the proposed banking union has brought the spectrum of a 'transfer union' closer. 3) Germany remains a reluctant hegemon and once it has seen that France is still not ready for political union it has refrained from actively promoting this ideal. The conclusion of the paper is that the first two explanations have some merits, but that the third one continues to be the most convincing. The zeal by which the German political elites, supported by their public opinion, have pushed through the *Spitzenkandidaten* logic in the 2014 European elections confirms that Berlin is still determined to build a more federal Europe. The question is rather whether Paris is ready to participate in this endeavour.

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1. Introduction

Germany plays a fundamental role in the economic and political stability of the European continent. This has been the case for centuries. Since the mid 15th century the territories that lay in what is today the Federal Republic of Germany have been crucial in determining the balance of power in Europe. No matter whether we analyse the attempts of Charles V and Philipp II of Spain to create a Universal Monarchy, the caliphate of Suleiman the Magnificent and his successors' desires to dominate Europe, Napoleon's ambition to establish a continental bloc, the *Mitteleuropa* of Imperial Germany, Hitler's Third Reich, the socialist utopia of the Soviet Union, and more recently the construction of NATO and the European Union, "in each case the central area of contention was Germany: because of its strategic position at the heart of Europe [and] because of its immense economic and military potential" (Simms 2013:530). The importance of the German territories for the maintenance of the balance of power in Europe has been a preoccupation for British rulers since Henry VIII. London opposed for centuries any attempt by imperial Spain and France to control this region, and later, when Germany united, it fought two world wars to avoid German domination of the Continent. The obsession by David Cameron, the current British Prime Minister, to fight anything that hints to German-led euro-federalism follows this tradition.

This is striking because after WWII, London seemed to have found a way to solve the 'German Problem'. This was articulated by Winston Churchill (1946) when he stated that "there is a remedy which…would in a few years make all Europe…free and…happy. It is to re-create the European family, or as much of it as we can, and provide it with a structure under which it can dwell in peace, in safety and in freedom. We must build a kind of United States of Europe" based primarily on French-German reconciliation. Interestingly, 70 years later Churchill's call to create a more united Europe around Germany has been embraced by another British intellectual with influence on both sides of the Channel: Anthony Giddens (2013:211), who believes that the 'German Europe' that has emerged in the aftermath of the Eurozone crisis "is not a situation that will remain for the indefinite future, as so many now fear. It is necessarily temporary and it is intrinsically unstable. That is why a federal solution, backed by greater legitimacy and leadership capacity on an EU level, is the only feasible way forward".

Over the past 50 years Germany's classical European policy has epitomised the spirit of an "ever closer union". Since the post-WWII era, German leaders and the public at large have recognised that the only way to preserve peace, stability and prosperity in the Continent is through deeper integration. While the other two big powers of the EU: France and the United Kingdom have always been jealous of their national sovereignty (a legacy of their centralist traditions), Germany – traumatised by its bellicose past and weary of the threat of Russia in the East – has never shied away from proposing further pooling of sovereignty (a concession facilitated by its federal tradition). This became evident in the 1970s, 1980s and 1990s when the idea of a European monetary union (EMU) started to materialise. Since the Werner Report published in 1970, the debate between German 'economists' (who believe in economic convergence and political union as a precondition for a stable monetary union) and French 'monetarists' (who see monetary and economic union as precursors of political union) has clearly shown how Berlin has always been more comfortable than Paris with the idea of creating a more federalised EU (Dyson & Featherston 1999; Marsh 2009). As a matter of fact, Berlin has in numerous occasions over the past 25 years proposed the creation of a political union to make the monetary union sustainable, while Paris has always considered this topic taboo.

This happened again at the peak of the Eurozone crisis. After two years of foot-dragging, in early June 2012, the always-cautious German Chancellor Angela Merkel seemed to revive the spirit of Helmut Kohl and declared live and on German public television that EMU needs a political union to survive. It seemed that Germany was ready to use the window offered by the crisis to bring forward the ultimate stage in European integration. However, this was the first and last time that Merkel mentioned this concept. Since the crucial European Council meeting in late June 2012 – which called for the important step to create a banking union (with an implicit fiscal union) in the Euro Area – the German government has shied away from actively endorsing the necessity of establishing a political union, despite numerous calls from in and outside Europe for Germany to take the lead in pushing for deeper political integration. Hence, it can be argued that for a long time Germany talked the talk of the necessity of political union, but when the real moment came it did not walk the walk. The aim of this paper is to try to explain this apparent u-turn by the German government.

Three explanations will be put forward. The first relates to the widespread view that Germany is slowly acting as a 'normal' European power, which similarly to the UK and France, is more interested in safeguarding its own national interest rather than enhancing the common good. The second explanation is linked to the first and refers to the gradual erosion of support for political union among the German public in the past decades. This was particularly evident in the aftermath of the crucial June 2012 European Council. Once the possibility of a banking and fiscal union was seriously considered at the highest level, the conservative media and pundits in Germany raised the spectrum of a 'transfer union' and public opinion turned actively against this possibility.

However, despite the seeds of truth that can be found in these two explanations, as will be shown below, they are not totally convincing. We are in front of a multi-causal u-turn that warrants a third explanation. Berlin's recent cautiousness on the possibility of establishing a political union might have more to do with Germany's historic status as a reluctant hegemon (Chang 2003; Paterson 2011) rather than its narrow desire to advance its national interests. Thus, in the following it will be argued that, fully aware of the fears that a more assertive Germany can resurrect in the Continent, the German government still prefers the community to the intergovernmental method in European integration. But given that France is not ready to relinquish its fiscal sovereignty to Brussels, Berlin has decided to stay put on this front. In a nutshell, the main argument put forward is that the Franco-German marriage is still the key partnership in Europe. Hence, Germany is still waiting for France to construct jointly the political union that is necessary to make the euro sustainable.

The paper is organised as follows. After this introduction, the second section offers the theoretical framework. Two conceptual devices will be used: money and hegemony. Drawing from the Chartalist school of money, it will be explained that for EMU to last, the Eurozone will have to create a legitimate political authority that can centrally underpin the euro. Germany could potentially be the hegemon that drives this process, but given Europe's past, Berlin will need to achieve this in partnership with Paris and in a non-hegemonic way. The second section summarises chronologically German attempts to convince France to establish a political union. It shows how the June 2012 European Council could be seen as a turning point in this strategy. Following up, the third section presents the three explanations summarised above which might help to understand Germany's recent reluctance to pursue political union. It will show that Germany remains committed to further integration but its reluctant hegemon status impedes it to push forward without the support of France. The paper ends with some concluding remarks.

2. Money and Hegemony

Although mainstream economists have only one explanation on the origins of money, the fact is that historically there have been two ways to understand the nature of money (Goodhart 1998; Ingham 2004). The first is represented by the orthodox, also called Metallist, school of money (this is the one described in standard economics textbooks) which believes that money emerged spontaneously from the market to overcome the problems of the double coincidence of wants of barter. Historically market agents have always chosen a commodity that is rare, hence intrinsically valuable, divisible and durable as their preferred medium of exchange, thus silver and gold became the most used types of money. Under this understanding, money is just another commodity which follows the rules of demand and supply and which acts as a neutral veil in the workings of the economy. For this school money can perfectly function without political interference. It is a tool that reduces transaction costs. More importantly, since it is a neutral device, it can be discarded in the analysis of the *real* economy.

Optimum Currency Area theory (Mundell 1961) builds on this tradition. It applies the logic of the metallist school of money on the spatial dimension. It argues that a single currency can reduce transaction costs in areas which have high degree of mobility in their factors of production, such as capital and labour. Again, here there is no necessity of political interference. In its pure logic, OCA theory says that a big nation state such as Russia or China could have several currencies, and several very integrated states, such as the Benelux, could share one currency. This de-politicisation of money is crucial to understand why in the 1990s the official mantra from the European Commission was that the euro would provide one single money for one single market, and this would greatly reduce transaction costs and spur economic activity. Under this logic, money remains a neutral device and therefore credit relations, and their inherent social and political power struggles, are overlooked.

There is however another view on money represented by the heterodox, also called Chartalist, school of money which claims that the most important function of money is not to be the medium of exchange, but rather the unit of account, which historically has emanated from the taxing scale imposed (through persuasion or coercion) by the sovereign on its subjects in any given monetary space (Goodhart 1998; Ingham 2004; Martin 2013). Hence, following this interpretation, money cannot exist without a centralised and legitimised political authority that can underpin it. As Ingham (2004:25) points out, "it is difficult to envisage how a money of account could emerge from myriad bilateral barter exchange ratios based upon subjective preferences. One hundred goods could possibly yield 4,950 exchange rates". Consequently, "the very *idea* of money, which is to say, of abstract accounting for value, is *logically anterior and historically prior to market exchange*". Hence, since the Mesopotamian and Egyptian empires around 2500 BC, money has always been introduced by a political authority.

In history there have been numerous examples of private 'near' moneys, such as the bills of exchange of the giant merchant houses in medieval Europe, the derivative markets of modern finance, or the most recent Bitcoin market, but ultimately because of war, major defaults or widespread market uncertainty these types of private credit systems always collapsed (Martin 2013). Money is always debt, and debt is the counterpart of credit, therefore money is a social relation between creditor and debtor, and as in all social relations it is inherently loaded with notions of power (Graeber 2011). As the word credit indicates, money is based on trust, and trust in money in modern societies comes from the fact that in moments of crisis the state acts as the mediator between creditors and debtors, if need be by the use of the legitimised use of force. It also happens that the state is the main debtor (issues debt to cover public services) and creditor (collects taxes) of any modern monetary system, which means that when it comes to money there is a hierarchical pyramid, and the legal tender (therefore the Charta), sanctioned by the sovereign state to redeem taxes, sits at the top. Money exists because there is a sovereign authority, with its full fiscal capacity, behind it. Full Stop.

If we accept this second conception of money, the euro is an orphan currency, and this is the reason why it is so fragile and exposed to the speculative attacks of financial market operators. When the euro was created Germany was inclined to build a political union to make it more robust (Dyson & Featherstone 1999), but France was against this idea, so the compromise was to create an EMU based on a strongly orthodox framework (the Maastricht Treaty) which would convince market operators that this was a strong currency with a fiercely independent European Central Bank which would never allow the monetisation of debt, historically the nightmare scenario of international creditors (Ingham 2004). By not being able to create a European sovereign, France and Germany agreed to establish a system with a lot of rules, but with very little political discretion. This de-politicisation, or one might say de-chartalisation, of the euro was for a long time seen as a positive feature, but the recent Eurozone debt crisis has shown that it is a source of great instability.

From 2010 until 2012 market operators were continuously asking: what is the political project behind EMU? Where is the central political authority that can stabilise this monetary space? While these questions remained unanswered, betting on the collapse of the euro was a logical reaction. The situation only stabilised in June and July 2012 when Chancellor Merkel spoke openly about political union, when she agreed to establish a banking union, and crucially when Mario Draghi stated that the ECB would do "whatever it takes" to save the euro – and even more importantly when days later Merkel threw her political weight, and consequently that of the German taxpayer, behind those words.

Consequently, recent events have shown that the survival of the euro out of this existential crisis is not due to the fact that it is a neutral and de-politicised currency that reduces transaction costs, but rather because market agents have discovered that the political authority underpinning the project resides in Berlin. In this regard, pleas to Germany to take the lead and push for further integration and create the fiscal and political union necessary for the stability of EMU have been widespread. The influential investor George Soros (2012) has passionately argued that Germany should lead or leave the Euro Area. "As the strongest creditor country, Germany has emerged as the hegemon [and] if Germany chose to behave as a benevolent hegemon. That would mean implementing the proposed banking union; establishing a Debt Reduction Fund, and eventually converting all debt into Eurobonds".

The Polish foreign minister, Radoslaw Sikorski (2011), was even bolder in his plea for Berlin to act:

> I demand of Germany that, for its own sake and for ours, it help the eurozone survive and prosper. Nobody else can do it. I will probably be the first Polish foreign minister in history to say this, but here it is: I fear German power less than I am beginning to fear its inactivity. You have become Europe's indispensable nation.

Similar demands have also come from academia. Matthijs and Blyth (2011) have argued that "to solve the European crisis and avoid repeating the mistakes of the late 1920s and the 1930s, those sitting in Berlin and Brussels should put down their Andrew Mellon and read Charles Kindleberger". Delong and Eichengreen (2012), drawing also on Kindleberger and his hegemonic stability theory, come to a similar conclusion, stating that "the German federal government, the political incarnation of the single most consequential economic power, is one potential hegemon" for Europe.

Their arguments are convincing. Germany could act as the single stabilizer of the Euro Area by providing five key public goods: 1) *A market for distressed goods*. Germany should increase its domestic demand; 2) *Counter-cyclical long-term lending.* The creation of a redemption fund and a banking union with a sizable fiscal backstop could be a start, and targeted investment in the cash-strapped periphery should follow; 3) *Stable exchange rates.* The euro has shown that it is a strong and stable currency throughout the crisis, but too much of a good thing might be counterproductive. In a world of open currency wars, Germany's obsession with non-interference in the exchange rate can be seen as too dogmatic. The Euro Area, with Germany at the front, could be more active in trying to convince the other members of the G20 to have more stable exchange rates; 4) *Macroeconomic policy coordination*. Germany could take the lead in the creation of a *gouvernment économique* which could coordinate structural reforms, both on the demand and supply sides of the Euro Area economy. For this, there should be a centralised fiscal budget to overcome asymmetric shocks and coordinate targeted fiscal transfers in exchange for reforms; 5) *The creation of a lender of last resort.* Berlin should accept that the ECB needs to be the lender of last resort in times of financial distress both for banks and member states. If this requires the creation of a centralised treasury and a political union to control national budgets, so be it.

Given that these proposals are perceived as sound for a large majority of observers in the US, most of continental Europe and key emerging markets such as China and Brazil, there is increased despair about German inaction. The general view is that, "the problem today is not German strength but German weakness – a reluctance to take up its hegemonic role" (Matthijs & Blyth 2011). The key question, however, is whether Germany is ready to take the leadership role demanded from it. Here it might be useful to differentiate between types of hegemons. Traditionally, the literature has focused on coercive and benign hegemons, but as Chang (2003:223) points out, an additional distinction might be warranted. There are hegemons "that aspire to it and those that find hegemony thrust upon them". This variation is crucial to understand the behaviour of Germany and its reluctance to take a leadership role. Following Chang's conceptualisation:

> Both types of [hegemons] posses a certain amount of power and influence, but what they do with this power differs greatly. A state that welcomes the prospect of hegemony, even pursues it actively, undertakes leadership in a manner that one typically associates with a state that possesses a preponderance of power. Such a state uses its power to create regimes that allow it to pursue its interests or provide public goods. A

> reluctant hegemon, one on which hegemony presents itself by virtue of the state's power and strength, will not push forward cooperation.

Germany has over the past decades shown, and this has been even more apparent during the Euro Area debt crisis, that it is a reluctant hegemon. Berlin, personified by the cautious character of Angela Merkel, has only acted in the midst of the crisis when the Euro Area was about to collapse. Illustratively, it has not taken a leadership role in the creation of the two permanent and important institutions that have emerged from the crisis and signify a deepening of EMU: the European Stability Mechanism (ESM) and the banking union. It can be agued that Germany took the lead in the creation and signing of the Fiscal Compact, but the new treaty is effectively a Maastricht 2.0, which does not go beyond strengthening the Growth and Stability Pact (GSP).

When it came to create new institutions, which pave the way for the mutualisation of risks and revenues in the future, it was France which took the lead. Sarkozy played an important role in convincing Merkel, first in the run up to the historic European Council weekend of 9-10 May 2010, to establish the European Financial Stability Facility (EFSF), and then in the controversial bilateral meeting in Deauville on 18 October 2010, to establish the permanent ESM (Jamet *et al*. 2013). Likewise, it was François Hollande's decision to back Spain and Italy in the 29 June 2012 European Council meeting which finally persuaded Merkel to agree on the creation of a banking union, which theoretically should break the doom-loop between national banks and their governments. Furthermore, the Fiscal Compact would not have been signed if Sarkozy, and later Hollande, would not have given it their political support, despite intense pressure at home to reject such a German-inspired, and for many, heavily anti-Keynesian treaty.

Although the common view is that Germany has conceded very little during the crisis (Paterson 2011). This is not necessarily true. Schild (2013a:30), for example, argues that "France forcefully used the window of opportunity of this sovereign debt crisis to promote major changes to the economic governance structures of the Euro Area along the lines of its long-lasting preferences". The creation of the EFSF and later the ESM is a case in point. Before the crisis, Germany was always opposed to the creation of a permanent rescue mechanism with the capacity to issue common liabilities. This Rubicon has now been crossed, which means a huge triumph for Paris and its desire to enhance the solidarity structures in EMU. As the former French State Secretary for European Affairs, Pierre

Lellouche, has put it, “[t]he Euro 440 billion mechanism [of the EFSF] is nothing less than the importation of NATO’s Article 5 mutual defense clause applied to the Eurozone. When one member is under attack the others are obliged to come to its defense” (cited in Schild 2013a:30).

Thus, these events demonstrate that again and again, European integration is not based on German hegemony, but rather on the crucial cooperation between Berlin and Paris in what Pedersen (1998) has once called ‘cooperative hegemony’, Calleo *et al.* (1999) dubbed the ‘Franco-German engine’ and Krotz and Schild (2013) have more recently described as ‘embedded bilateralism’ across the Rhine. Although nothing in Europe can be done without Germany. The fact is that Germany will not move forward towards further European integration if France does not go along. As Sarkozy has accurately described this particular marriage, “Germany without France frightens everyone. France without Germany frightens no one” (cited in Giddens 2014:21). The importance of the Franco-German tandem has been a constant over the past decades, and despite French weaknesses it is bound to remain the backbone of European integration (Wong & Sonntag 2012). Consequently, if Germany is considered the key player to create a political union to make the euro sustainable, Berlin, and those who argue in this direction, will need to convince Paris first.

3. Germany’s overtures to political union

Following the Chartalist logic, as soon as the idea of the single currency was first articulated in the Werner Plan in 1970, the German political establishment (including policymakers at the Bundesbank)[2] realised that the project could only last if there was a political union underpinning it. They were also perfectly aware of the difficulties that such an enterprise would entail. Hence, they were sceptical of the French view, expressed for this first time by the economist Jacques Rueff, that “*L’Europe se fera par la monnaie ou ne se fera pas*” (Europe will be made by the currency, or it will not be made at all). In their view, to have a single currency, the European countries keen to participate in such a project needed first to convergence and then share a series of economic and monetary principles, which in the

[2] As early as 1963, the then president of the Bundesbank, Karl Blessing, argued that the introduction of monetary union should be conditional on the creation of a political union (see BUBA 2012).

German view should be based on fiscal discipline, price stability and free competition. In other words: the ordoliberal social market economy model of Germany.

This conception, which later became known as the view represented by the German “economists”, contrasted with that of the French “monetarists”, who argued that monetary union would eventually lead to economic and political convergence. Thus, when it came to understand the relationship between money and sovereignty, the German view was that political union, based on common economic principles, should precede monetary union, while the French response was that monetary union would be the first step towards a distant political union (Dyson & Featherstone 1999; Marsh 2009).

Thus, at first view it appears that the German political establishment had a more Chartalist understanding of money than their French counterparts. In 1990, the Bundesbank wrote that the member states which would participate in EMU would be inextricably linked to one another “come what may”, and thus that such a union would be “an irrevocable joint and several community which, in the light of the past experience, requires a more far-reaching association, in the form of a comprehensive political union, if it is to remain durable” (cited in BUBA 2012). On 6 November 1991 – just a few months before the signing of the Maastricht Treaty – the then German Chancellor Helmut Kohl made his own the analysis of the Bundesbank by stating in front of the Bundestag:

> It cannot be repeated often enough. Political union is the indispensable counterpart to economic and monetary union. Recent history, and not just that of Germany, teaches us that the idea of sustaining an economic and monetary union over time without political union is a fallacy.

Crucially, the minutes of this parliamentary session show that this statement received a round of applause from all sides of the house (Bundestag 1991), including the Christian Democrats (CDU/CSU), the Liberal Democrats (FDP) and the Social Democrats (SPD), which signifies that there was ample consensus among the German political elite towards the necessity and desirability of political union. This was certainly not the case among the French political elites, still highly dominated by Gaullist attitudes on the centre-right, and sceptical of the liberal principles of the EU on the centre-left.

Nevertheless, this is not to say that the Chartalist understanding of money was not present in Paris. It is very likely that there was a clear understanding that the euro will need a political authority to survive. But for most French political elites, this political authority underpinning EMU should not reside in a federalised structure governed by the European Commission and the European Parliament out of Brussels, but rather emerge from an ever closer confederation of nation states (*L'Europe des Patries*) in which the most important political and strategic decisions should be decided out of Paris. Thus, ironically, by attempting to tame German monetary power through the creation of the euro, French long-term strategists tried to obtain for Paris what Berlin has acquired in the aftermath of the Eurocrisis without actively pursuing it.

To the contrary, in a number of occasions over the past two decades, key German policymakers proposed their French counterparts to eliminate the spectrum of German hegemony by deepening European integration through the building of more federalised institutions. The first time this was done in an open and coherent way was when in 1994 the then senior cabinet member and now current minister of Finance of Germany, Wolfgang Schäuble, and his colleague in the then ruling CDU/CSU, Karl Lamers, wrote a policy paper entitled: "*Überlegungen zur europäishen Politik*" (Thoughts on European policy). In it they put forward a number of ideas and proposals that illustrate the attitudes towards deeper integration that were dominant among top German policymakers then. First of all, Schäuble and Lamers made clear that history shows that German attempts to overcome the tensions between the West and the East and achieve domestic and European stability through hegemony have always failed. The last time that this was pursued was in WWII and "the military, political and moral catastrophe that this produced has demonstrated Germany not only the limitations of its power but most importantly that security in Europe can only be achieved through a fundamental reorganisation of the state system which recognises that hegemony is neither possible nor desirable" (Schäuble & Lamers 1994:2, own translation).

Secondly, they proposed that the 'core' of the EU (this was the first time that the concept of 'enhanced cooperation' was introduced) led by a strengthened Franco-German tandem, should aim to draft a new constitution as the legal basis for the creation of a federal state which should respect the principles of subsidiarity. Following the German model, this supranational state should have in the European Commission its government, and the legislative branch should be build on the European Parliament, as the lower house, and the European Council – which should respect both the principle of equal treatment of all member states and the size of the population of each of them – as the upper house. Finally, this new supranational state should have a common foreign and security policy aimed at stabilising the European neighbourhood with an enlargement to the East (which eventually happened) and with strategic partnerships with key players such as Russia and the US. It is important to highlight here that Schäuble and Lamers saw this German initiative to deepen European integration, and especially the links with France, as reassurance against allegations that German unification and the Eastern enlargement of EU would distort the power balance between France and Germany – precisely the scenario that we have today.

Not surprisingly, the idea of a federal Europe did not fly in Paris. From a French perspective, the concept of federalism is practically alien. The concepts of nation and centralisation are deeply rooted in French political culture. This relates to the deeply held jacobine conviction that federalism is incompatible with *égalité*.[3] Thus, despite Germany's increased potential power, Paris was not ready then to relinquish farther parts of its national sovereignty to Brussels.

However, this French rebuke to German overtures did not stop the next German government to try again to convince the French political establishment about the necessity of deeper integration. In a speech delivered in 2000 the then foreign minister and Vice-Chancellor of Germany Joschka Fischer, from the Green Party and in a coalition government with the SPD, echoed the words of Schäuble and Lamers by delivering a similar message. First he made again clear that "the core of the concept of Europe after 1945 was and still is a rejection of the European balance of power principle and the hegemonic ambitions of individual states that has emerged following the Peace of Westphalia in 1648". Subsequently, he emphasised that "eastern enlargement and the completion of political integration, will depend decisively on France and Germany". In other words, "no European project will succeed in the future without the closest Franco-German cooperation". Finally, Fischer (2000) put forward his vision by asking:

> How can one prevent the EU from becoming utterly intransparent […] and the citizens' acceptance of the EU from eventually hitting rock bottom? There is a very simple answer: the transition from a union of states to full parliamentarization as a European Federation, something Robert Schuman demanded 50 years ago. And that means nothing less than a European Parliament and European government which

[3] I thank Albrecht Sonntag for pointing this out to me.

> really do exercise legislative and executive power within the Federation.[4] This Federation will have to be based on a constituent treaty.

Given German insistence on a constitutional process, it is easy to understand why the first decade of the XXI Century was dedicated to draft a constitutional treaty for the EU. After years of discussions throughout the convention, the proposed constitutional treaty had a number of federalising features such as the establishment of an official flag, an anthem, more power to the European Parliament and the creation of the president of the European Council and the minister of foreign affairs. Unfortunately for European federalists, the idea of a supranational state was again met by fierce French opposition. This time not from the political elite, but from the French population who rejected in 2005 the constitutional treaty in a referendum,[5] encouraging the Dutch population to do the same just a few days later.

The French *non* and the Dutch *nee* to the constitutional treaty in 2005 seemed to bury the idea of a political union for the EU. While it is true that the treaty was repackaged and ratified under the Lisbon Treaty, most of its more federalising symbols were eliminated. There is no mention to the flag or the anthem and the foreign minister has become the High Representative for Foreign Affairs and Security Policy. The euro crisis has, however, revived the federalist camp. After almost two years listening to demands from all corners of the Continent and beyond to save the euro, on 7 June 2012 – when Spain, too big to fail but also too big to be rescued, was close to default – Chancellor Merkel finally disclosed her vision for Europe with this statement in the ARD, the German national public television:

> "We need more Europe, we need not only a monetary union, but we also need a so-called fiscal union, in other words more joint budget policy. And we need most of all a political union – that means we need to gradually give competencies to Europe and give Europe control" (cited in *Euractiv* 2012).

Crucially, as if it were coordinated beforehand, a few days later she was backed by the influential president of the Bundesbank, Jens Weidmann, who stated that to make EMU sustainable member states needed to pool further sovereignty to the centre in order to create a fiscal union (cited in *Handelsblatt* 2012).

[4] In the same speech, Fischer acknowledges: "the term "federation" irritates many Britons. But to date I have been unable to come up with another word. We do not wish to irritate anyone." This last sentence could also be directed to Paris.

[5] The reasons for the rejection of the constitutional treaty were multiple. The perceived pro-market character of the text was perhaps a bigger reason than its supranational objectives. In any case, the rejection was a blow to federalist ambitions.

It seemed that the German leadership was seizing the opportunity offered by the crisis to finally convince their weakened French counterparts to relinquish sovereignty to the centre of the Union to make EMU sustainable. Surprisingly, however, this was the first and last time Merkel mentioned the concept of political union to solve the Euro crisis. After the crucial European Council of the 29 June 2012 – when the establishment of a banking union was agreed – talk around 'political union' disappeared from the German political discourse, including in the political campaigns leading to the German elections in September 2013 and the European elections in May 2014. It seems that this particular European Council, when France, Italy and Spain ganged-up and obtained a major concession from Merkel, was another turning point in German ambitions to establish a political union.

4. Germany's u-turn on political union?

Germany's sudden cold feet in regards to establishing a political union is rather surprising because it was precisely in the second half of 2012 that the four presidents of the European institutions were instructed to draft a paper which should show the way towards the creation of a Genuine Economic and Monetary Union with a banking, fiscal, economic and political union (Van Rompuy 2012). This report was watered down (and the part on political union eliminated all together) due to German opposition to creating a Eurozone budget. It can be argued therefore that when it really mattered Germany did not fulfil its promises. What are the reasons for this change of attitude?

4.1 Germany as a 'normal' power

One interpretation that is gaining strength is that slowly, like the other two big powers in the EU: France and the UK, Germany is becoming a 'normal power' (Bulmer & Paterson 2010). European integration over the past 40 years has been driven by the fact that when it came to resolving the tensions emanating from diverging interests, Germany was always "willing to contribute a little more and take a little less than the others, thereby facilitating agreement" (Soros 2013). This 'benevolent' attitude started to change when German unification was completed and Gerhard Schröder arrived to the chancellery in the late 1990s. Based on its newly acquired power, the German government – composed for the first time by political leaders that did not experience WWII– is more inclined to fight for its national interests. As Schröder declared when he became chancellor: "Germany standing up for its national interests will be just as natural as France or Britain standing up for theirs" (cited in Paterson 2011:62). The behaviour of his successor Angela Merkel has proven him right.

In light of this new logic, during the recent Euro debt crisis – in the social relation or even struggle between creditor and debtor that money always is – as a creditor country, the aim of Germany has been to download most of the adjustment costs onto its indebted partners. This has been done by a strategy of using the pressure of the markets to force the peripheral countries to undertake the spending cuts and structural reforms that are necessary for them to regain their competitiveness in an increasingly globalised world, and by only intervening with financial help when the situation was about to be out of control.

In this regard, Germany is playing a game of chicken with its partners (Bergsten & Kirkegaard 2012). It knows that the peripheral countries are only willing to undertake the structural reforms when they are pushed against the precipice, but it is also aware that none of its partner can fall into the abyss because – as the case of Greece has shown – it can potentially drag the whole club down. However, throughout this process, in what Beck (2012) has coined as 'Merkiavellism', Germany has increased its negotiating power by doing nothing but staying put. Throughout the period 2010-2012 the more Merkel took a passive role when it came to meet the demands for more German action to save the euro, the more she gained political leverage against the leaders of the peripheral countries and France. This newly acquired power has been recognised throughout the EU, including the UK, and beyond. Political leaders in the US, China and Russia know that if they need to call one number in Europe it is that of Angela Merkel.

History shows that once power is obtained it is not easy to relinquish. Precisely this is what might happen right now to policymakers in Berlin. Certain branches of the German political elite have realised that they can act as the British and the French.[6] They know that if Europe wants to have a voice in an increasingly multipolar world it needs to unite, but for the moment Germany has enough weight to postpone this process. Germany has veto power on any decision that is taken in the Euro Area and this might not be the case in a parliamentarised political union with a European executive and a European legislative. This could explain why in principle Germany finds itself comfortable with the intergovernmental 'union method' adopted for both the ESM and the banking union. In both instances the ultimate decisions will be taken in the Council, where Berlin has overwhelming power.

Besides, for the German political elite and for the German public at large, the performance of the European Commission throughout the crisis has been considered to be deficient due to its

[6] Interview with senior German official, London, 7 November 2013.

weak enforcement capacity.[7] There is a sense that the Commission has been soft with the peripheral countries in imposing discipline and forcing them to undertake structural reforms. The example of Greece – and the lack of far-reaching structural reforms there – is presented as evidence that the supranational authorities might not be able to perform their duties efficiently, which means that the idea of a political union loses appeal both for the elites and the general public, which ultimately would have to vote in favour of such a project through a referendum, which would be the first in the Federal Republic.

4.2 Public Opinion Backlash

Focusing on Germany's public opinion leads to the second explanation on why the German government has dropped the goal of pursuing political union from its agenda. Although the German public has become more critical with European integration since the creation of the euro (Bulmer & Paterson 2010), another important tipping point in this structural trend seems to have been the crucial European Council meeting in late June 2012, which agreed to establish the banking union. The outcome of that Council meeting was generally interpreted in the European press as a clear victory of the indebted South and the first serious defeat for Merkel since the beginning of the crisis. In Germany the ganging-up tactics of the *Club Med* countries were met with fierce criticism. The leaders of Italy and Spain were accused of blackmailing Merkel and there was widespread anger about giving away the 'carrot' of banking union without disciplining once and for all the countries from the periphery (Rahman 2012).

Deep-rooted stereotypes were reactivated during this period. The sense among the German public was that, as always – and despite the signing of the Fiscal Compact which should enshrine the culture of fiscal discipline in all member states – the southern countries were after the German wallet without accepting that short-term financial support will not solve their longstanding structural problems. Furthermore, there was a sense that a real banking union was a fiscal union by the backdoor, and this would mean that the south had achieved what the German public has always feared, namely the creation of a transfer union without centralised control of tax revenues in the corrupt countries of the periphery. Jens Weidmann summarised these feelings by recognising that, as it had been a mistake to create a monetary union without political union in Maastricht, it might be a mistake to establish a banking union

[7] The Eurobarometer shows that from 2007 (EB67) until 2013 (EB80) trust in the European Commission plummeted among German public opinion from 49% to 34%.

without a "comprehensive reform of the supervisory regulatory framework and of the respective national scope for economic and fiscal policy" (cited in BUBA 2012).

The feeling of being again cornered by the *Club Med* countries was strengthened when Draghi (2012) delivered his much quoted speech in London where he stated that the ECB was ready to do "whatever it takes" to save the euro. The sentiment of betrayal was further reinforced when the ECB announced its Outright Monetary Transactions (OMT) programme – which is fiercely opposed by the Bundesbank on the grounds that it signifies a breach of the "no bail-out clause" enshrined in the Maastricht treaty. By then the president of the Bundesbank, Jens Weidmann, a much respected figure by the German public, was seen as losing his power of influencing decisions at the ECB's governing council. The ECB was portrayed in the German press as the new *Banca d'Italia* led by Draghi who was ready to use the old trick of state financing in order to inflate away the debt of the peripheral countries. This triggered thousands of lawsuits at the German Federal Court of Justice against the OMT.

All this had major implications in the psyche of many Germans. Weidmann's isolation made them realise that by establishing one day a political union, Germany might not be able to win the necessary majorities to enforce what they see as their rightful and successful ordoliberal model. In this sense, the idea of political union might be less appealing from a German point of view. It is no coincidence therefore that in the run-up to the Federal elections held in September 2013 emerges the new anti-euro party *Alternative für Deutschland*. The arrival of this formation in the political arena has both surfed on a changing public discourse around European integration and contributed to change it further towards increasing Euroscepticism. Before, questioning European integration was politically incorrect in Germany, now it is acceptable, and a party with an open anti-euro discourse has almost achieved the 5% threshold of votes that are required to enter the German Bundestag. Significantly, AfD obtained 7% of the German votes in the European elections. Hence, calling for political union in the EU is less popular than it was, and this might be the reason why the German political establishment has decided to drop the concept from its political programme.

4.3 Nothing goes without France

The two explanations put forward above have a lot of truth in them, but they are not entirely convincing. Despite the new German political establishment being more at ease in fighting for their national interests and the German public being less constraint in criticising the EU, two recent episodes demonstrate that Germany remains committed to the idea of creating a political union to sustain EMU, under the Chartalist logic of money explained above. The first relates to the way key German politicians such as Martin Schulz (president of the European Parliament and lead candidate for the European socialists) and Klaus Welle (secretary general of the European Parliament and senior politician of the CDU) have driven the *Spitzenkandidaten* campaign in the run up to the European elections. The second has to do with the pressure that the German public has applied upon Merkel to resist the blackmailing tactics of the British Prime Minister David Cameron and accept Jean-Claude Juncker as the new President of the Commission following precisely the *Spitzenkandidaten* logic. Both these actions have shown again that both the German political establishment and public opinion at large remain the most fervent believers in the idea of a more democratic and federal Europe.[8]

This general sentiment was again articulated by Wolfgang Schäuble – exactly 20 years after his paper with Lamers – in a landmark speech delivered two days after the European elections. In it Schäuble (2014) recognises that the intergovernmental arrangements adopted throughout the crisis are only “second best solutions” and therefore that it is necessary to go back to the community method through treaty changes. He endorses the *Spitzenkandidaten* process and goes even further advocating the direct election of the European Commission president by the citizens of the EU. Furthermore, he emphasises the necessity of reform following the principal of subsidiarity not only in one direction, as is commonly understood in Britain, but both ways. A wide range of issues should be decided at the local, regional and national level, but when it comes to cross-border phenomena such as “trade, financial markets, currency issues, climate, environment and energy, as well as foreign policy and security policy […] only the European level can successfully take long-term action”. Aware of the new political landscape critical with the EU, Schäuble goes even beyond the concepts of ‘political union’ and the ‘United States of Europe’ often used by euro-federalists (and fiercely opposed by eurosceptics) and argues that the EU should rather be a “multilevel democracy”. “Not a federal state whose centre of gravity would lie in the middle of a political structure that is almost like a nation state. But at the same time it should be much more than a confederation of states, whose connections remain weak and lacking legitimacy”. The last point is important, because from a Chartalist perspective it is the legitimacy of the political authority that makes a monetary system sustainable.

[8] The 2013 Fall Eurobarometer (No.80) survey shows that 69% of Germans were in favour of the *Spitzenkandidaten* process. The latest Eurobarometer (Spring 2014, No.81) also shows that 75% of the German public is in favour of EMU.

Here we see how Germany is still committed to further integration. Eurosceptics might say that Schäuble's views have become a minority in Germany, but as mentioned above the success of the *Spitzenkandidaten* campaign – which was driven mostly by German politicians and the German public– does not support this thesis. Generally the political establishment in Germany remains favourable to more integration but they do not want to impose it against the will of their partners, especially without counting with France, which right now is mired in euroscepticism, as the European elections have shown. As explained above, Germany remains a reluctant hegemon. Although this was not apparent at the beginning of the crisis, (Bulmer & Paterson 2010), many of its elites are extremely worried about Germany becoming a 'normal power' and the anti-German backlash that this may trigger across the Continent (Giddens 2014).[9] Thus, Germany's cautiousness in relation to pushing for treaty change and political union is explained by the fact that it feels that yet again the time is not ripe for France to enter the game. And without the participation of France, any attempt to deepen political integration will not be successful.

While the discussion around the necessity of political union to save the euro is part of the German public debate, this is not the case in France. There the sense is that the Euro Area should rather work on the establishment of a *gouvernement économique* which should harmonize labour markets and the social welfare and taxing systems. Despite recent weaknesses due to declining competitiveness and increased public debt, the French political establishment is still convinced that the French social-economic model is the way to go for the rest of Europe. They perceive it as the only model that limits excessive inequality and therefore preserves social cohesion and decent living and working standards for all. This *franco-français* attitude creates a lot of frustration in Berlin (Schild 2013b). There is a sense that economic cultures have converged over the past 20 years (the French socialists signing the Fiscal Compact is a case in point), but generally speaking there are still many differences in approach. Germany remains convinced that price stability and fiscal restrain is the way to go, while officials in *Bercy* still worry about unemployment and growth and how they can stimulate domestic demand with public spending. Right now, in the midst of the crisis, the expenditure of the French state is 56% of GDP.

[9] This was recognised by a senior German official under the Chatham House rule, Madrid, 21 July 2014. He also acknowledged that smaller partner states such as Austria, Finland and The Netherlands have voiced their concerns about the intergovernmental solutions adopted during the crisis. They supported them as crisis management solutions but they cannot become the new *modus operandi* of the Union.

Therefore it can be argued that the old tensions in economic and monetary culture between France and Germany have not disappeared. Paris still demands from Germany to use its economic power to support the solidarity principles of the Union, while Berlin urges France to commit to structural reforms to be fitter for an increasingly globalised world and to cede control of national budgets to the centre so that the culture of fiscal discipline can be consolidated (Schild 2013a). The best example of this tension is the debate around Eurobonds. Both Sarkozy and Hollande have openly stated that it would be a good solution to solve the euro crisis because it would mean the mutualisation of the liabilities of the Union and it would provide international investors with a risk-free financial instrument that could be an alternative to US treasury securities. International demand for these assets would in turn reduce the financing costs of the Eurozone as a whole. The response from Merkel (with the implicit backing of the Bundesbank and Federal Court of Justice) has been that there would not be any Eurobonds as long as she lives, unless, of course, political union is achieved. In other words, the German answer to French demands is thus: there cannot be any mutualisation of liabilities, if there is no mutualisation of revenues. To this, however, the response from Paris is: "No, thanks".[10]

Overall then France and Germany are in a gridlock. Neither wants to concede, and they appear to use vague, general concepts to put their counterpart into the defensive.[11] When Paris asks for Eurobonds, Berlin says this can only be done after *Politische Union*. In turn, when Berlin makes the case for political union, Paris replies that the first step towards political union should be a French inspired *gouvernment économique* aimed at harmonising economic and social policies, which is something that puts Berlin off. Hence, by observing French elusiveness, the feeling among the German political elite is that there is no appetite in the other member states to pursue political union. And since Germany does not believe that it is wise to take the leadership without Paris, efforts to build a political union have been scaled back – for now. Again this sentiment was articulated best by Weidmann by saying: "seeing how reluctant some countries are to relinquish their fiscal policy autonomy – even in return for financial assistance – it is hard to imagine political union being achieved in the foreseeable future" (cited in BUBA 2012). This is the reason why Germany has back-rowed on the creation of the banking union. It is fully aware that a real banking union necessitates a fiscal union, but it is convinced that a fiscal union requires a legitimate political union first.

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[10] This was acknowledged by a senior German official under the Chatham House rule, Madrid, 21 July 2014.
[11] I thank Nicolas Jabko for illustrating me this point.

5. Conclusion

Accepting the Chartalist understanding of money which says that any monetary space needs a political authority to stabilise it, and convinced that legitimate sovereignty at the European level can only be achieved through a non-hegemonic process, German political leaders (be it in government or at the Bundesbank) have in numerous occasions over the past quarter of century forcefully argued in favour of establishing a political union to underpin the euro. The last time this was done by the German Chancellor was at the peak of the eurozone debt crisis when Merkel said in German national television that EMU needs a fiscal union, and before that a political union. However, after the crucial European Council meeting of June 2012 – when the leaders of France, Italy and Spain convinced Merkel to establish a banking union – the German political establishment eliminated the concept of political union from the German public debate both during the German elections in 2013 and the European elections in 2014. This paper has tried to find explanations to this apparent u-turn.

The first possible explanation is that Germany is starting to behave as a normal power like France and the UK. The new generations of political leaders in Germany do not feel constraint by the burden of history and are more inclined to fight more forcefully for their own national interests. Under this logic, Germany is unwilling to enter into a political union, because an intergovernmental configuration offers it veto power. The second explanation is intertwined with the first by pointing to the fact that the German public has always resisted the idea of being locked into a transfer union with the Southern members of the EU. This sentiment was reinforced once it was reported that the leaders of the *Clud Med* countries had used blackmailing tactics against the German Chancellor to make her sign the banking union, which, if properly conceived, implies the creation of a fiscal union by the backdoor. The rise of this increased euroscepticism in Germany is epitomised by the emergence of the anti-euro party *Alternative für Deutschland*, which has shocked the political establishment in Germany and changed the political discourse in the country. It is now politically acceptable to criticise the EU and demand a stop to further integration. This can certainly explain why the Chancellor has refrained from calling for political union in Europe.

These two explanations point to two undeniable trends in German politics, however they are not totally convincing. The last European elections have shown that Germany remains committed to a more federalised Europe. The way the political establishment and the general public have embraced the *Spitzenkandidaten* campaign and how they have forced Merkel to accept Jean-Claude Juncker as the new Commission President – despite fierce opposition from London against a federalist candidate – provide support to this thesis. Hence, German reluctance to push for political union is better explained by a third factor based on the notion that Germany remains a reluctant hegemon that will not impose its will against the desires of the other member states of EMU, especially France. For 50 years European integration has been driven by the Franco-German marriage and this is likely to continue. For this to happen, however, France needs to overcome its lethargy. It needs to regain its economic strength and play a more active role in the construction of the future of Europe. Hollande (2013) has recently recognised this and declared that Paris is ready to enter into a conversation with Berlin regarding the establishment of a political union in Europe. So far these have been mere words without much action.

Following the Chartalist logic of money, EMU needs a legitimised political authority to be sustainable in the long run. Germany could be the benevolent hegemon that could perform this task, but given the past history it is very difficult to see this happening. Germany does not want to lead and the rest of Europe is uncomfortable with a German Europe. The aftermath of the Eurozone crisis has given Germany already too much power and the German elites are starting to be aware of this. They know that German power is more accepted when it is embedded within deeper European integration structures. Schäuble is well aware of this and his 2014 speech in favour of treaty change and further integration is another clear message to Paris, and beyond, that Germany is serious about continuing with the Monnet method. Thus, those that criticise Berlin to do too little to make EMU more sustainable should better aim their criticism towards Paris. Ultimately, as Javier Solana (2014) has argued, "France should not be afraid of exchanging some of its sovereignty for political union in Europe", not least because in a globalised world it is only through a more united and stronger Europe that France will be able to uphold its cherished social model and values.

It is likely that French long term strategists are aware of this. They seem to be waiting for France to regain its strength. Many in Paris believe that the demographic trends favour them. It is assumed that by mid century France will have the same population than Germany[12], so from their point of view it is smarter to delay negotiations leading to political union to a time

[12] The French National Institute of Demographic Studies estimates that this will happen in 2055. See Pison (2012).

when Germany is less powerful vis-à-vis France. The big question, however, is whether the orphan euro will still be around by then.

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