

The Eurozone and Germany

Crisis and Opportunity

Understanding Europe's greatest power

Bow Group Foreign Policy & Security Committee

Ben Harris-Quinney MSc

&

Christophe Scholer

With foreword by Dr Charles Tannock MEP

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Biographies:

Dr Charles Tannock MEP

Charles.tannock@europarl.europa.eu



Charles is currently MEP for London and among the Conservatives Party's most experienced MEPs. He is Vice-President of the EP Delegation to the NATO Parliamentary Assembly, UK Conservative Foreign Affairs Spokesman & ECR Co-ordinator on the Foreign Affairs Committee.

Benjamin Harris-Quinney MSc foreignaffairsandsecurity.policy@thebowgroup.org



Ben is the Political Officer & Senior Council Member at the Bow Group and Chairman of the Foreign Policy & Security Committee. He has worked on foreign policy & defence issues for the Conservative Party in both the UK and European Parliaments, is President of Conservatives Abroad Madrid and International Director (UK & EU) for the Ibero American Business Council. He holds an Msc in International Relations from the London School of Economics.

Christophe Scholer

christophe.scholer.09@ucl.ac.uk



Christophe is a member of the Bow Group Foreign Policy & Security Committee and a student of University College London, reading history. He has extensive experience of European Affairs with particular focus on Germany & the Benelux Countries.



Abstract:

The global economic crisis called into question almost every aspect of the global financial system, but as nations construct fiscal policy to tackle the crisis, the question of the validity and longevity of the eurozone remains unanswered.

One of the world's most powerful nations sits patiently at the centre of the eurozone, as both the chief architect and financier of the single currency. For Germany the question presented goes beyond the survival of the eurozone, and brings challenge to the strategy that has defined German foreign policy for the last two decades.

Germany is the result of a very modern kind of statecraft. A power vocal by its influence on the finance and regulation of Europe, muscular on issues of global trade and manufacturing, but silent, by comparison, as a unilateral actor on the world stage. This contrast was underlined by the centrality of Germany in managing the European financial crisis, and its marked absence from the international conversation on the increasingly unstable Middle East, now, and throughout the last decade.

If one had to characterise Germany as a global power from the Libya-crisis alone, there are indeed analogies in German behavior to non-Western powers like Russia, Brazil, India or China, which all abstained from UN resolution 1973. Like these powers, Germany is weary of military interventions. Germany knows that its power will continue to derive from soft institutional structures and economic clout, rather than a robust hard powered foreign policy. That economic clout however, is inexorably fused to the economic structure of the EU, around which Germany has built its foreign policy goals.

Whilst the government seems to be incredibly attentive to internal public opinion, and to the German public the thought of underwriting Europe's debt crisis is unappealing, to its political elite the thought of the collapse of the European project is unthinkable.

Chancellor Merkel has been swift to acknowledge public concern, reassuring a restless nation that "every country is responsible for its own debts", and that "there will be no transfer union under my legislature". Yet any acknowledgement of public concern by senior government officials is delivered in unison with a robust and sobering defence of the ongoing European project.

German government willfully placating, but effectively ignoring public opinion in order to further the cause of the eurozone, is less an anomaly and more of a trait of the legislative record. In 1999 the German public were antipathetic to surrender the Deutschmark when it was among the world's strongest reserve currencies and the backbone of Frankfurt's bid as a global financial centre, and yet it effectively moved through the Reichstag by an executive act, absent a much called for public referendum.

Senior German policy makers have in fact been surprisingly bellicose in the face of what many economic commentators deem to be the death throes of the eurozone. Whilst this can be easily dismissed as the necessarily brave face of a state in crisis, its intelligence runs to a deeper understanding of the development of the EU.

Historically the Union itself was born of great crisis, as many of its subsequent great advancements. It is undoubtedly in this vein that both the current and former German finance ministers across the political spectrum have commented that the eurozone crisis offers the greatest opportunity yet to deepen fiscal unity and central control of the European economy in Brussels.

The challenge and interest presented to the future of a German foreign policy 50 years in the making therefore could hardly be more dichotomous. If the eurozone fails, Germany will need to again restructure its economy and re-define itself on the world stage. If it weathers the storm, then Germany sits at the heart of one of the most powerful economic bodies in the world, ever strengthened by its continued resilience.

Those in the financial sector that are waiting for the inevitable collapse of the eurozone to end the enduring echoes of the global recession, may yet have to wait out the dogged resolve of Europe's greatest power.



Forward: Dr Charles Tannock MEP

The sovereign debt problems of Greece, Ireland and Portugal - all of which have sought a bailout from their EU partners, with Germany being *primus inter pares* - are collectively portrayed as a crisis for the euro and the eurozone with Germany at the centre of that crisis. How Germany with its massive economy and Bundesbank legacy reacts to this as it asserts its new global confidence is the basis for this timely Bow Group paper. Germany is certainly in foreign policy terms seeking a more neutral and nuanced international position as evidenced by its abstention over the UNSC 1973 resolution authorising military action in Libya and Germany's overcautious and virtually non-combatant participation in the ISAF NATO mission to Afghanistan. It maintains a strategic bilateral relationship with Russia and a growing economic relationship with China.

However, it's hard to see from a German perspective how the euro itself, as a currency, is in crisis. The euro, at least on the foreign exchange markets, remains strong - perhaps even too strong for Germany, given Europe's imperative to kick-start exports to promote a recovery from profound recession and encourage FDI and tourism into peripheral eurozone economies.

Demand for euro-denominated bonds issued by Germany and France, and even more questionable Italy, remain robust. Presumably if the markets were convinced that the euro itself was doomed they would avoid all exposure to its fixed income securities, however trustworthy the issuing government. It's also worth pointing out that the euro is gradually filling more and more space in the foreign exchange reserves of various governments around the world, led by China, Germany's largest EU economic partner, and which has every incentive to preserve the single currency project as it seeks a more multipolar world and abate US dollar dominance.

The euro, then, to my mind, is arguably not afflicted by an existential crisis - at least no more so than the US dollar in the wake of the Wall Street Crash or the German mark during the hyperinflation of the Weimar Republic. Furthermore Germany though less euroenthusiastic than before is not ready to abandon its cherished project which has hitherto served its economic interests well and a return to the Deutschmark would severely penalise its export led economy as it would rapidly revalue.

If we take a historical perspective we see that currencies can survive the most fearsome buffetings and still emerge the other side. Indeed, I can't help feeling that much of the doom-mongering we see in the British press about the euro is being peddled by hardline eurosceptics with a secessionist agenda that goes further than the demise of just the euro but of the EU itself. It's far too early to read the last rites to the Euro and even less so to predict the imminent unravelling of the entire EU project.

Is the eurozone in crisis? Well, parts of it, yes. It would be foolish to underestimate the dire situation in which Greece finds itself. But elsewhere in the eurozone, growth is returning. Germany is once again

powering ahead, driven by the twin virtues of fiscal discipline and actually still making high-value products that the rest of the world wants to buy.

Some observers have argued that the difficulties of some eurozone economies demands a renewed effort to centralise macroeconomic policy and regulation in Brussels. Already a consequence of the banking crisis has been the creation of new supervisory banking, insurance and securities structures at EU level to prevent a repeat of the crisis. The push for more EU 'economic governance' is also bound to lead to a key role for the European Commission in monitoring member state's spending plans, with a much more stringent application of macroeconomic stability and growth pact criteria and heavy fines to enforce compliance .

A tight fiscal framework, coupled to closer political union, is an inevitable vital component of a successful economic and monetary union. This truism was one that Britain has always fully understood, which is why we were - and still are - right to stay out. However, eurozone countries seem belatedly now to understand the need for a much greater political and fiscal component in collective economic management. This is not a radical departure but what was needed all along - and what might have saved Greece from itself.

The important thing to note about the EU's response to the sovereign debt crisis is that it is still being driven by member states led by Germany. Yes, the Commission has a powerful role in cajoling, criticising and correcting but ultimately national governments have retained control of how to respond to the current difficulties. The fiercest debates about what to do next are in the Council, between the member states who have the financial resources to recapitalise the banks and bail out insolvent governments.

This is partly because Germany is mindful of its banks' exposure to Greek debt. When its efforts to restructure Greek bond payments were scuppered (on the basis of being a default in all but name), Germany sought to spread responsibility for the bailout throughout the eurozone - and even to Britain, which has rightly restricted its share only to its IMF contribution towards the second Greek bailout.

The ongoing machinations over Greece give lie to the idea that member states are impotent in the face of the Brussels behemoth. Ultimately, national leaders are accountable not to Greeks or to their fellow leaders but to their voters. Germany, or any other member state for that matter, will only carry on underwriting Greek debt for as long as German voters tolerate it, but that is not going to change any time soon. If a Greek default and subsequent exit from the euro (and possibly the EU) is the price that has to be paid for the preservation of the wider European project and its flagship - the euro - then I don't doubt that Germany will do the necessary. No-one knows for sure the outcome of all this turbulence. But if the euro survives, it is likely to emerge stronger than ever particularly if the weaker economies such as Portugal, Ireland and Greece peel away. It will then vie with the dollar for the title of the world's reserve currency of choice. Indeed, unless the US starts grappling with its own mountainous deficit and a black hole of welfare entitlements the euro could rival the greenback in its position at the apex of the global financial system. British Conservatives wish the German led single currency political project well as its implosion would negatively impact on our country but we in Britain prefer the flexibility of setting our own interest rates and currency value and in short safeguarding our economic and ultimately political sovereignty. However understanding German domestic and foreign policy priorities as this paper seeks to do in the best internationalist tradition of the Bow Group is vital to our own economic and foreign policy interests and I commend the authors in producing this important document.



Introduction

The threat of a Greek default has not merely created a European currency crisis, but a political quagmire in which the value and future of European integration as a whole are being fundamentally questioned internationally. In no other country has the ongoing battle to defend the Euro created more question marks and rifts within politics and society over the future of Europe, and the direction of foreign policy more generally, than in Germany.

If we in United Kingdom fail to understand the true and complex nature of German foreign policy as the driving force behind the eurozone, then our ability to navigate the European financial crisis, both as an EU member and as an individual nation, will be greatly compromised.

The danger of sovereign default within the common currency area has placed Chancellor Angela Merkel in a most unpropitious position. She needs to balance Germany's decades-old, but fading lead role in the advancement of the European project with the demands of a booming economy, an increasingly eurosceptic population and the German electoral cycle. Her handling of the crisis has been regularly regarded by foreign observers as signs of growing assertiveness, regained strength and reinvigorated political ambition. Those who take an inside-view, however, are struck by the weakness and helplessness that the Euro-crisis exposed in the Merkel government. In fact, during an April episode of *Maybritt Illner* – Germany's most watched televised political discussion show – the leader of the Social Democratic Party (SPD) Sigmar Gabriel compared the government to a “random generator” lacking a coherent systematic policy program.¹ Former chancellor Helmut Kohl similarly accused the current coalition government between Angela Merkel's Christian Democrats (CDU) and the liberal Free Democrats (FDP) of not having a “foreign policy compass”.² He claimed that he had trouble finding out what today's Germany stands for and where it is bound.

It appears as if in the midst of popular riots in Athens, chauvinistic newspaper headlines in Germany, a wavering chancellor, near sovereign defaults and bailouts, a new ‘German Question’ is emerging. What kind of Germany is the UK, Europe and the world currently dealing with? Is the old Germany, the consistent and reliable partner in the construction of today's Europe, unrivalled in its embrace of

¹ See <http://www.zdf.de/ZDFmediathek/kanaluebersicht/aktuellste/414#/beitrag/video/1306152/Die-erschöpfte-Koalition>.

² Daniel Brössler & Nico Fried, “Helmut Kohl kritisiert Bundesregierung”, *Süddeutsche Zeitung*, 25/08/2011.

“multilateral, institutionally mediated systems [...] that soften sovereign power” becoming a mere façade behind which German leaders pursue their national interests?³ Or has it become entirely a thing of the past? Should British and other European politicians view Germany in more realist terms, as an aspiring regional hegemon, and deal with it accordingly? The central aim of this paper is to clarify the nature of Germany’s current foreign policy dilemma and examine its many facets and implications for the UK and wider Europe. This paper intends to argue that Germany is currently in a transitional phase where the old and the new Germany coexist and the decade-old ‘Bonn consensus’ is slowly adapting to new realities rather than disappearing altogether. It will show that Germany’s handling of the euro-crisis is much better thought through and consistent with the country’s long-term foreign policy strategy than many observers today acknowledge. Having based its power and influence on a successful EU, and especially a vibrant eurozone, Germany will not ‘go national’ as is widely feared but will stick with its multilateralist, European strategy.

The attitudes shown and decisions taken by Germany to settle Europe’s debt problems will serve as a first template outlining the apparent paradoxes and the curious mixture of old and new features in German foreign policy.

The second part of this paper will look at a dual process of continuous power accumulation and waning support for the European project over recent years. These developments have partly hollowed out established certainties of Germany’s position toward its neighbours and the wider world without, however, signaling a completely new era of German foreign policy.

The third part will broaden the study to other areas with a foreign policy component – energy, economic and security policy – in order to demonstrate that the euro-crisis is not an isolated phenomenon. The conclusion will include a variety of policy proposals to address the new German question. Lastly, it will argue that a Germany that remains within its old paradigm and is deeply concerned with saving the eurozone and making it stronger is – perhaps paradoxically – in Britain’s national interest.

³ Peter Katzenstein (ed.), *Tamed Power: Germany in Europe*, Ithaca, 1997, p.4.



Germany & the Euro-Crisis: Goodbye 'Bonn Consensus'?

The still unfolding sovereign debt crisis of the eurozone is arguably the biggest foreign policy challenge Angela Merkel has had to face since she came to power in 2005. The crisis has shed new light on the *political* atmosphere in a country which has hitherto been primarily conceived of in economic terms. Growth rates, booming exports and strong industrial competitiveness have been the hallmark of Germany's international image rather than a boasting, self-assertive tone in the political world. Since the reinvention of the German nation and the *Wirtschaftswunder* of the West German Federal Republic after the Second World War, the country has voluntarily constructed an image of itself as 'civilian power' or 'trading nation'.⁴ From Konrad Adenauer to Helmut Kohl, the Western Federal Republic of Germany adopted a pacifist foreign policy which shied away from using military means and making unilateral decisions at any cost. Instead a deep-seated multilateralism, especially evident in Germany's integrationist enthusiasm for a united Europe, and a focus on economic development became the defining characteristics of the country's post-war history. Within Europe, this meant embedding German national interests in enthusiasm for European integration, a reliance on Franco-German cooperation to implement European agendas, chequebook diplomacy and preferential use of the communitarian method. Together these policies and priorities can be dubbed the pro-European 'Bonn Consensus' after the former West German capital. This consensus has been dealt heavy blows over the course of resolving Greece's, Ireland's and Portugal's solvency problems.

National Interests & European Integration

It is safe to say that Germany's lead role in pushing European integration forward has been significantly undermined by current events in the Western and Southern European periphery. For decades Europeans were used to living with a weaker Germany that was adamant about its belief in the greater good of Europe and was prepared to sacrifice purely national aspirations and symbols of national pride like the D-mark for the benefit of a stronger European Union. "What is good for Europe, is good for Germany", as a popular German saying went. Yet during the debt crisis that is still engulfing Europe, Germany has shown its neighbors a new face.

⁴ See among others Hans W. Maull, "Germany and Japan: The New Civilian Powers", *Foreign Affairs*, Vol.69(5), Winter 1990, pp.91-106; Sebastian Harnisch & Hans W. Maull, *Germany as a Civilian Power? The Foreign Policy of the Berlin Republic*, Manchester, 2001.

In the summer of 2010, when Greece's debt became unsustainable and it transpired that successive Greek governments had provided false statistics about their fiscal situation for years, the markets quickly turned against one of Europe's smallest economies. Anticipating a potential default, they sent Greek bond yields skyrocketing. Chancellor Angela Merkel and her government in Berlin, however, although commanding Europe's largest financial resources, reacted to the ensuing crisis in a hesitant and undetermined manner. Even more importantly the government looked at the Greek crisis – and the subsequent events in Ireland and Portugal – through the prism of internal public opinion. The German electorate was – and still is – deeply opposed to using taxpayer's money to bail out allegedly work-shy and tax-evading foreigners. At the same time the electoral cycle drew Merkel's attention to regional elections in North Rhine-Westphalia.

As Berlin led the process of devising the final rescue measures for its endangered neighbours, European solidarity and the aim, in and by itself, of helping Greece out of its mess were not paramount. The stark austerity programs imposed on Greece, Ireland and Portugal by the EU and the IMF, and the rhetoric behind them were intended as much for a worried national audience as for the improvement of the debt situation. Beside a prolonged period of austerity, guarantees that taxpayer's money will be paid back in the future have been established by Germany and other Northern countries as the *quid pro quo* for the financial lifelines extended from the richer core to the profligate periphery. CDU politician and current German Minister of Labour and Social Affairs, Ursula Von der Leyen, has even floated the idea of placing Greek gold reserves or industrial assets as collateral against potential losses for the German federal state – and by implication the German taxpayer – on the rescue loans provided to Greece.⁵ The bailout measures themselves have consistently been defended by the Merkel government as serving German interests rather than the countries facing a potential sovereign default or the greater European good.

The debate over the creation of so-called Eurobonds, which would be issued and guaranteed commonly by all euro-using governments, further evidences the dilemma Germany is facing between its own national interest and that of the whole continent. While it would allow Greece, for instance, to gain renewed access to international money markets and put downward pressure on bond yields of increasingly endangered but central economies like Italy and Spain, a move to Eurobonds would certainly also raise interests on German government bonds. Peter Altmaier of the CDU also expressed his worries that such a move would also “take away the pressure to save” from those profligate countries who, according to party wisdom, caused the current quagmire in the first place.⁶ So far the primacy of German interests has prevented such a far-reaching European solution as Eurobonds

⁵ “Merkel lässt Von der Leyen mit Gold-Pfand abblitzen“, *Die Welt*, 24/08/2011.

⁶ Quentin Peel, “Berlin Send Mixed Eurobond Message“, *Financial Times*, 16/08/2011.

The Franco-German Alliance

Collateral damage to the Franco-German relationship at the heart of the EU was almost inevitable given the imbalance in economic and financial power resources between both countries. While in France a 93-year-old former resistance fighter's pamphlet *Indignez-vous (Time for Outrage)* has become a national bestseller, Hans-Werner Sinn, head of the Munich-based Institute for Economic Research prefers to think of Germany's upcoming "Golden Decade".⁷ As French *malaise* increasingly contrasts with German economic prowess, eminent sociologist Wolf Lepenies has been led to warn German politicians "to refrain from their favorite occupation of playing teacher to others".⁸ Nonetheless, while addressing the woes of Greece, Ireland and Portugal, Angela Merkel has been pushing hard for a more *German Europe* while France's role in the partnership has been limited to tempering German demands including, for example, automatic sanctions including loss of voting rights in the EU for all those guilty of fiscal irresponsibility within the eurozone. While such initiatives were successfully kept off the agenda by President Sarkozy and his team, its creative impulse for a post-crisis euro-regime was limited, sometimes openly ignored.

This is even more surprising since the French model for European economic governance seemed to have been vindicated by the 2008 financial crisis at the expense of the German one. Contrary to Germany's insistence on a purely inflation-focused and sheltered central Bank, the ECB started, for the first time in its history, to heavily intervene in European bond markets during the Lehman Brothers meltdown. The utter inadequacy of the Stability and Growth Pact (SGP), which purported to guarantee fiscal stability through mutual assurances and a regime of sanctions for trespassers, meant the failure of another tenet of European economic governance as favoured by Germany. Almost three years on, however, the Germans – in a demonstration of their great influence on the continent – have again managed to set the European agenda to suit their own beliefs and interests. In May 2010, Angela Merkel told her parliament that "Europe needs a new culture of stability".⁹ Acting on that statement, Merkel and her team have, in accordance with the IMF and other EU governments, imposed harsh austerity programs on Greece, Ireland and Portugal. They have, most notably in the form of the new Euro Plus Pact adopted in March 2011, pushed for making balanced state budgets a constitutional requirement throughout the eurozone (Italy is currently considering doing so) and tried to increase oversight of national budgets by other European governments and the European Commission. In terms of monetary policy, a return to the German model also seems imminent. Of course, the ECB is still active in buying euro-denominated sovereign bonds to calm the markets (most recently to prevent a run on Spanish and Italian debt), but these interventions are increasingly criticised and intended to become the responsibility of the European Financial Stabilisation Facility (EFSF) as soon as possible. Despite sluggish growth and even

⁷ "Ifo-Chef Hans-Werner Sinn: Deutsche Wirtschaft steckt Japan-Krise Weg", *Focus*, 17/03/2011, see: http://www.focus.de/panorama/welt/tsunami-in-japan/wirtschaftliche-folgen/ifo-chef-hans-werner-sinn-deutsche-wirtschaft-steckt-japan-krise-weg_aid_609664.html

⁸ Wolf Lepenies, "'Grande Nation': Der Gefährliche Neid der Franzosen auf Deutschland", *Die Welt*, 23/02/2011, see: <http://www.welt.de/debatte/kommentare/article12626263/Der-gefaehrliche-Neid-der-Franzosen-auf-Deutschland.html>

⁹ See the CDU's official website: http://www.cdu.de/archiv/2370_30964.htm

contraction within the euro-economies, the ECB even raised interest rates twice this year to the current 1.5% rate. This is in stark contrast to the expansionist monetary policy in the UK and the USA and goes to show that the German insistence on preventing inflation has again been translated to the European level. As we are now witnessing Germany's sustained attempt to export its own economic model to the rest of Europe at the expense of the French one, all doubts about who is in the driving seat of Europe's core relationship are being removed.

Chequebook Diplomacy

The bailout packages designed since the beginning of the Greek debt crisis and the furious internal debates which accompanied them have made a return to the long-standing German tradition of acting as the EU's banker almost impossible. Formerly, financial support for the EU with few strings attached was a way for successive German governments to buy the goodwill of its neighbours. Today, the prospect of indefinitely bailing out unruly euro-users has made the German public question the worthiness and legitimacy of over-proportional financial contributions to the temporary rescue packages in the eurozone and the regular EU budgets. It was indeed the spectre of a permanent European transfer union which initially dominated much of the public discourse on the eurozone's ills. This led Angela Merkel to placate popular fears by declaring that "there will be no transfer union under my legislature" and that "every country is responsible for its own debt" in an interview with the populist *Die Bild*, Germany's most widely read daily newspaper.¹⁰ The terms of conditionality imposed especially on the Greek population in return for EU and IMF financial support are severe. Angela Merkel sees austerity as the necessary homework that needs to be done before receiving financial aid. The plans for a post-crisis Eurozone envisaged by the German leadership also reflect this discontent with the country's long-standing blank cheque diplomacy. The new Euro Plus Pact puts pressure on all adherents to keep their public finances in strict order. The European Stability Mechanism (ESM), although turning the *ad hoc* rescue authority, the EFSF, into a permanent institution, is also an expression of new German demands to link financial contribution to decision-making power. It has been established at the European Council that voting rights in the EMS will be linked to capital subscriptions to the fund. With Germany expected to contribute just over a quarter of the ESM's financial resources, this will grant the German government an effective veto over all decisions taken by the ESM since even less consequential decisions will need to be made by a qualified majority of 80%.¹¹

The Community Method

The last traditional German foreign policy method that has been dealt a lasting blow with the euro-crisis is an inclusionary approach to policy-making. Like Franco-German cooperation and power-neutral financial support for the European project, the community method was a way for Germany to

¹⁰ Nikolaus Blome & Alfred Draxler, "Kanzlerin Merkel zur Euro-Krise: 'Jedes Land ist für Seine Schulden Selbst Verantwortlich'", *Die Bild*, 23/03/2011. See: <http://www.bild.de/politik/2011/euro-krise/eu-sondergipfel-jedes-land-ist-fuer-seine-schulden-selbst-verantwortlich-16718732.bild.html>.

¹¹ Conclusions of EU Council meeting, 24/25 March 2011, see http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/120296.pdf

reintegrate the Western world and become once again an accepted European stakeholder after the debacle of World War Two. It broadly consisted of promoting supranational institutions and giving smaller EU members a bigger say than their size and relative importance would normally allow. Bolstered by its economic success, the German government has, however, become more convinced of its own capabilities in shaping the European project at the expense of European authorities like the Commission or the European Central Bank, and smaller and economically weaker nations. When she laid out her conditions for granting millions of euros worth of loans to Greece to the German Bundestag, Angela Merkel asserted that “the rules must not be oriented toward the weak, but toward the strong”. She called this a “hard message” but an economic necessity.¹² Greek complaints about the tone and the severity of the German *Diktat*, which envisioned tax rises, deep cuts in public spending and selling of national assets as a price for financial aid, were dismissed out of hand by Berlin. With an astonishing lack of sensibility for popular grievances in Greece and the vulnerability of Prime Minister George Papandreou, which might even irrationally push the country toward a messy unstructured default, German leaders remain adamant about the fulfillment of the austerity measures. The German tabloid press responded to Greece’s anger with headlines like “Just sell your islands, you bankrupt Greeks”.¹³ Alongside this imposition on smaller and less significant EU countries, the Merkel government has also been completely ignoring (the European Commission), or in perpetual clinch (the European Central Bank) with European institutions. The confrontation between the ECB and the Merkel government achieved a highpoint over the extent of the losses private bondholders of bad Greek debt should have to accept as a way of reducing the country’s overall debt level. Germany’s relationship with the ECB has further been tested as, for instance, over the debate regarding the central bank’s new round of buying European government bonds, this time with the aim of calming markets about the prospects of Italy and Spain. Alexander Jung, a CDU politician, called the ECB intervention a “disastrous” step, German President Christian Wulff called it “legally and politically questionable”.¹⁴

The Enduring Influence of the Bonn Consensus

Despite these substantial departures from formerly typical behavioural patterns, the Merkel cabinet’s absolute commitment to save the euro should not be doubted. The country’s recent economic success story is closely related to the adoption of the common currency. Those who argue, like Judy Dempsey of *The New York Times*, that “Germany is increasingly deploying its money and energy outside the euro zone to fuel its robust growth” are clearly pointing out an emerging reality.¹⁵ Yet this argument seems to be a classic case of putting the cart in front of the horse. German exports to the Netherlands (€63.2 billion) still roughly equal those to the United States (€65.5 billion) and exports to Austria (€53.7 billion)

¹² Plenary Protocol 17/42 of the German Bundestag, 42. Session, 19/05/2011. See: <http://dipbt.bundestag.de/dip21/btp/17/17042.pdf>

¹³ “Verkauft doch eure Inseln, ihr Pleite-Griechen... Und die Akropolis gleich mit”, *Die Bild*, 27/10/2010. <http://www.bild.de/politik/wirtschaft/griechenland-krise/regierung-athen-sparen-verkauft-inseln-pleite-akropolis-11692338.bild.html>

¹⁴ Dietmar Neuerer & Daniel Dehhaes, “Krisenpolitik unter Beschuss”, *Handelsblatt*, 08/08/2011; Ambrose Evans-Pritchard, „Germany Fires Cannon Shot Across Europe’s Bows“, *Daily Telegraph*, 24/08/2011.

¹⁵ Jack Ewing & Judy Dempsey, “Europe’s Economic Powerhouse Drifts East”, *The New York Times*, 18/07/2011.

exceed the combined volume to Russia, Brazil and India.¹⁶ The creation of the Economic and Monetary Union (EMU) has boosted German intra-EU exports overall. In 2009, the common market of the 27 EU members provided for 62.9% of Germany's merchandise trade volume.¹⁷

Belonging to a monetary union has allowed the German export industry to continue operating under a favourable currency regime. Though the Euro is far from a weak currency, a strictly national one like the Deutschmark would have appreciated substantially under Germany's current boom, forcing exports to fall again. Joining the EMU also meant fewer barriers for trade in the form of exchange rates and increased cross-border financial flows, both of which enhanced growth of the German economy. The single currency also benefitted Germany politically since it soothed the weariness of its neighbours who for several years resented the constraints imposed on them by the German Bundesbank and its mighty D-mark. The high priority that the euro enjoyed in German calculations about its own future and that of Europe was clearly demonstrated by Merkel's renouncement of proposing German officials for the two top EU posts created by the Lisbon Treaty – the President of the European Council and the EU High Representative for Foreign Affairs – although in ex-Foreign Ministers Joschka Fischer and Frank-Walter Steinmeier she had viable candidates. Instead, by this renouncement, she hoped to pave the way for then Bundesbank chief Axel Weber to follow in the footsteps of Jean-Claude Trichet as head of the ECB. Weber later retired from the race for the ECB post, but the fact remains that the German government identified the governance of the eurozone as the biggest prize to be won in the European institutional structure.

It therefore becomes clear that Germany's irritant and self-assertive response towards Greece and over the entire crisis is not an expression of discontent with the euro *per se*, but of an individual nation undermining the currency union by cooking its books and allowing its economy to become uncompetitive and debt-financed under the umbrella of a common currency. The resentment especially towards Greece is intensified by the fact that Germany was itself in bad economic shape at the turn of the millennium but chose to attack its structural problems head-on through painful labour market, welfare system and macroeconomic reforms, rather than becoming dependent on loans as Greece has done in recent decades.

This understanding of the euro-crisis, which some would describe as one-sided, goes a long way in explaining German attitudes and policymaking. Viewed from this perspective, German inconsistency in handling the crisis is not synonymous with carelessness about the euro. While Angela Merkel has taken an aggressive posture towards Greece and Ireland, LSE professor Iain Begg is right in arguing that "those

¹⁶ According to the Federal Statistical Office of Germany:
<http://www.destatis.de/jetspeed/portal/cms/Sites/destatis/Internet/EN/Content/Statistics/Aussenhandel/Handelspartner/Tabellen/Content100/RangfolgeHandelspartner,property=file.pdf>

¹⁷ According to WTO data:
<http://stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=DE>

who say the euro is at risk are either looking at it from the wrong side of the English Channel or the wrong side of the Atlantic. They don't understand the scale of the claim that has been made to it".¹⁸

Throughout the ongoing crisis, Germany has indeed given up certain elements of its previous European policy and has placed itself more squarely as the common currency's principal rule-maker. Yet, Henrik Enderlein, professor at the Hertie School of Governance in Berlin, rightly points out that the German government "always signals they'll go national, but in the end, they go European at the very last second", and the Germany's reaction to the eurozone crisis thus far has followed this line.¹⁹ Indeed, after initially ruling out any kind of bailout within the eurozone, Germany became the main underwriter of bailout packages to Greece, Ireland and Portugal. Angela Merkel and her coalition government similarly moved to creating a large financial stability fund – even making it a permanent EU institution in the form of the European Stability Mechanism – regardless of early rounds of skepticism. German policymakers might in equal fashion end up embracing Eurobonds as the only viable solution to the current turmoil in Europe. While the idea has so far been officially ruled out, the opposition Social Democrats have come out in favour of issuing common European government bonds. Leading politicians in government have also left the door to Eurobonds open. Peter Altmaier refused "to harp on about" fixed positions in the debate and Finance Minister Wolfgang Schäuble proclaimed that Eurobonds were viable and desirable once a higher degree of fiscal integration has been achieved.²⁰

In a recent interview with the *Stern* – a German weekly – Schäuble's support for further integration was evident when he put forward his view that "a state that is experiencing problems and receives help, must in return be willing to give up some of its sovereign rights to the EU".²¹ Tellingly, Schäuble's rhetorical pressure on economically weaker, indebted countries is not intended to directly strengthen Germany's position, but the EU's. This is not to mean, however, that Germany does not stand to benefit from 'more Europe'; quite the contrary. Europe still gives German foreign policy its content, its narrative and most of its political agenda. The euro, which is part of this international strategy, remains the founding stone of Germany's current economic boom and its political influence abroad which is resting precisely on Germany's economic success. Therefore self-assertive behavior towards the debt-ridden peripheral eurozone countries has always been balanced by Angela Merkel and her government's fundamental aim of guaranteeing the survival of the euro and restoring it to health. Chancellor Merkel, already before the second bailout in Ireland, publicly linked the fate of Germany, the EU and the euro indivisibly together: "The way we address the issue of a stable euro will determine the health of the economic and monetary union, the future of the European Union as a whole and therefore also our

¹⁸ Ian Begg, "A 'Deepening' European Union", *Council on Foreign Relations*, 14/06/2011.
http://www.cfr.org/eu/deepening-european-union/p25272?cid=rss-analysisbriefbackgroundersexp-a_deepening_european_union

¹⁹ Paul Taylor, "Fate of the Euro Central to Merkel's Dilemma", *The New York Times*, 27/06/2011.
<http://www.nytimes.com/2011/06/28/business/global/28iht-inside28.html?pagewanted=all>

²⁰ Peel, "Berlin Send Mixed Eurobond Message", *op.cit.*; Marcus Walker, "Eurobond Debate Rises in Germany, France", *The Wall Street Journal*, 16/08/2011.

²¹ "Wolfgang Schäuble im *Stern*-Interview: 'Das letzte Jahr war teilweise lausig'", *Stern*, 27/07/2011.
<http://www.stern.de/politik/deutschland/wolfgang-schaeuble-im-stern-interview-das-letzte-jahr-war-teilweise-lausig-1710295.html>

future here in Germany”.²² Her Finance Minister Wolfgang Schäuble went even further when he stated at the latest Munich Security Conference with regards to the troubles in the eurozone: “The deeper the crisis, the better the chance for getting solutions”.²³ What comes to light in the midst of the alleged endgame of the euro experiment is a Germany that, on the surface, has become more troublesome, irritable and self-centric, but in substance remains deeply wedded to the European project. Angela Merkel has managed to integrate the ongoing debt crisis into her country’s long-term foreign policy strategy. Provided the eurozone eventually overcomes this troubled period – of which the German leadership will make absolutely sure – Germany will have turned a nightmare scenario into an opportunity, placing itself at the heart of a powerful economic bloc that has internalised German values and furthers German interests under a European umbrella.

Meanwhile, the UK, which enjoys the benefit of assessing the situation on the continent with the necessary distance and flexibility, should take note. While German foreign policy lacks a strong hard-power component, it is guided by a long-term narrative which contrasts sharply with the often reactive and indecisive policies that successive British governments have pursued abroad. Moreover, British governments will increasingly have to look to Berlin – instead of Paris or Brussels – if they want to know where the eurozone and Europe in a wider sense are headed. Arguably, a eurozone underwritten and led by Germany is even in Britain’s national interests. It would allow London to keep its distance from further mission creep and financial participation while the German emphasis on fiscal prudence and economic competitiveness have the potential to redirect the EU into a direction much more to the liking of many Conservatives in the UK.

²² Severin Weiland, “Merkel’s Dilemma: Chancellor Faces Tough Sell on Irish Bailout”, *Der Spiegel*, 23/11/2010. <http://www.spiegel.de/international/germany/0,1518,730578,00.html>

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Inside the Juggernaut: The Changing Landscape of German Foreign Policy

Close examination of Germany's handling of the euro-crisis indicates that it is currently finding itself in a transitional phase. Germany is slowly growing out of its pre-unification paradigm but is, at the same time, clinging to certain tenets of this old framework in order to give meaning and add content to its foreign policy. Germany's actions abroad, however, are driven to a certain extent by internal developments.

Over the last decade a twin process, whereby Germany has simultaneously become more powerful and less convinced of the European project, lie at the heart of the country's current uncertainty of direction beyond its borders. Nevertheless, while the increase in power and influence has given Germany the means to more effectively throw its weight around and become more demanding towards others, it has also kept it entrenched in its European framework and soft foreign policy methods which are the foundation of German power in the first place. At the same time, waning support for European integration and solidarity has shifted public discourse toward a more instrumentalist approach for balancing national and European interests. In 2010 Stern magazine conducted a poll which suggested that 45 per cent of German voters believed the euro had brought more disadvantages than benefits to them, against 33% to the contrary.²⁴

However, though less mired in moral and emotional considerations and more skeptical overall, the new German attitude towards Europe is still a far cry from complete rejection or the promotion of purely national interests more common in the UK.

Europe's China

Since the fall of the Berlin Wall and the rejoining of its separate Western-liberal and Eastern-communist parts into a single political and economic entity, Germany has quickly developed into Europe's largest economy. While initially reunification became a drag to the country's economic growth and overall level of prosperity, Germany's GDP in 2010 stood at US\$ 3.3 trillion, fourth largest in the world and by far the largest in Europe. Recent figures have indicated that Germany, with a GDP growth of 1.5% in the first quarter of 2011, is experiencing the fastest and most robust recovery from the 2008 meltdown among all major European economies, thus reconfirming the national economy's health and competitiveness.

²⁴ <http://www.ft.com/cms/s/0/1349fdb4-0942-11e0-ada6-00144feabdc0.html#axzz1Y1fQsPsK>

Its export sector, trailing only China in total value sold abroad last year, has been instrumental in driving this recovery. If China has become the global workshop for cheap manufacturing goods, Germany is the world's number one address for high-end products. Its reputation for quality manufacturing, embodied most visibly in such global automobile brands like Mercedes, Audi, BMW or Volkswagen, is unparalleled in the world. The international media have variously written of the "Powerhouse Deutschland", "Germany Inc" or the "German tiger".²⁵

The Euro-crisis highlighted the dimension of German economic hegemony in Europe with unprecedented force. The common currency was intended to reign in Germany's economic and financial clout which was affecting other European economies. When Greece suddenly came close to default, however, Europeans unanimously looked to Germany at the heart of the eurozone for relief and the Merkel team took up the dominant role in the resolution of the crisis. Some commentators have even called it a "unipolar moment within the Euro-zone".²⁶ Like China on the global stage, Germany has yet to come to terms with its economic predominance in Europe. In a globalised world and an even more tightly integrated Europe, all of its decisions necessarily have snowballing effects beyond its territorial boundaries. Even hints at future decisions in Berlin are enough to influence events abroad. When German officials floated the idea that private bondholders should be implicated in a second rescue package for Greece by taking so-called 'haircuts', i.e. losses on returns for the liabilities they hold in Greece, it sent jitters through the markets, even though the ECB and France were openly opposed to such a measure.

Its economic predominance has led Germany to take a more assertive stance to the economic governance in the EU. However, since Germany's economic prowess depends, as we have seen, on the single market and the eurozone, this assertiveness is necessarily limited to the extent that the German economy needs the entire fabric of the EU to work smoothly in order to be successful. The imbalance of economic power has led especially young aspiring leaders like Philipp Missfelder, head of the youth wing of Angela Merkel's Christian Democratic Union (CDU), to look elsewhere for markets and economic relationships. He names China and Asia as the future for Germany and laments that the sheer quantity of European meetings inhibits the chancellor from forming closer ties with these emerging economies.²⁷ The temptation of "going global alone" is certainly palpable considering, for instance, the rapid growth of exports to China which accounted for almost half of total EU exports to the East Asian emerging giant in 2010.²⁸ The gain in economic weight has thus, on the one hand, allowed Germany to increase its influence as an individual nation in the global arena. Yet, as we have seen, that same economic success

²⁵ John O'Sullivan, "Europe: Powerhouse Deutschland", *The Economist: The World in 2011*, December 2011; Werner Mayer-Larsen, *Germany Inc.: The German Juggernaut and Its Challenge to World Business*, New York, 2000; Jens Bastian, "German Tiger or European Growth Engine?", *The World Today*, Vol.67(8), August/September 2011, p.16.

²⁶ Ulrike Guérot & Mark Leonard, "The New German Question: How Europe Can Get the Germany It Needs", *European Council on Foreign Relations*, 30/04/2011. http://www.ecfr.eu/page/-/ECFR30_GERMANY_AW.pdf

²⁷ Nicholas Kulish, "German Identity, Long Dormant, Reasserts Itself", *The New York Times*, 10/09/2010. <http://www.nytimes.com/2010/09/11/world/europe/11germany.html?pagewanted=all>

²⁸ Guérot & Mark Leonard, "The New German Question: How Europe Can Get the Germany It Needs", *European Council on Foreign Relations*, 30/04/2011. http://www.ecfr.eu/page/-/ECFR30_GERMANY_AW.pdf

has also linked Germany more closely to its European partners and it is therefore on the effectiveness of the common currency and the European Union that the German leadership spends most of its energy and resources. As Foreign Minister Guido Westerwelle put it recently in response to former chancellor Kohl's criticism that Germany had lost its 'compass' in the world by forgetting its European destiny:

For us it is not only decisive to honour old partnerships and deepen friendships, but in this 21-century world we also need to seriously consider new global centers of power. This is not a change of course, nor does it mean we are forgetting that course or losing our compass; it is simply the recognition of a new era.²⁹

Other Power Resources

The economy remains the backbone of German power and influence. But there are other elements, complementing its economic clout, that have helped turn Germany into the most influential player in Europe. Most prosaically, Germany is simply Europe's largest country by population. The Federal Republic is also the EU's largest and the UN's third-largest financial contributor (without a permanent seat at the Security Council) and its foreign aid budget has been consistently among the world's highest. Its history of reconciliation and East-West division during the Cold War have created a lot of goodwill among its neighbours which otherwise would have every reason to fear and contain a newly resurgent Germany. In Eastern Europe this soft image is especially powerful. The shared experience of living in the communist bloc, Willy Brand's *Ostpolitik* and Helmut Kohl's vocal support for the EU's Eastern enlargement despite skepticism in other European capitals have earned Germany a special position in the Eastern European mindset. Germany's economic success story is a model to these countries which has translated into very German macroeconomic governance after the transition to the free market. Except Hungary, all Eastern European EU-members meet the Stability and Growth Pact target of a 60% debt-to-GDP ratio and their budget deficits come closer to the 3% of GDP target than in most other parts in Europe and are balanced by higher growth rates.

German leaders have also been especially adroit at shaping the European Union from within to suit German interests and political norms. While British MEPs, for instance, might initially look with disbelief at the complexities of the European parliamentary system, the latter conforms much closer to the political norms of the German Bundestag where federal politics, coalition-building and competition among several (not only two) political groups are the order of the day. The prevalence of institutional export from Berlin to Brussels is evident at many levels of the European Union structure. Comfortable in its surroundings in Brussels and aware of its growing influence, Germany has become the main agenda-setter for Europe-wide priorities. The continent's embrace of green and alternative technologies, the enduring absence of Germany's distorting trade surpluses on the policy agenda and the renewed emphasis on fiscal prudence and the ECB's independence and absolute focus on inflation while fixing the eurozone's debt problems; all these initiatives and priorities bear a strong German handwriting.

²⁹ "Merkel weist Kohls Kritik zurück", *Frankfurter Allgemeine Zeitung*, 25/08/2011.

Europamüdigkeit

Europamüdigkeit, a neologism that has found its way into German public discourse, denotes a growing disenchantment (literally, “tiredness”) of Europe and the commitments it implies. Waning Euro-enthusiasm has become a characteristic feature of the political landscape from politicians to the constitutional court in Karlsruhe and down to the average German taxpayer. This erosion of Germany’s European identity does not imply the reemergence of a more narrow nationalism, but it does inform the national public discourse and decision-making at the political level. Constitutional constraints, growing popular euro-skepticism, loss of cross-party consensus and visionless leadership all surfaced under the strains of Europe’s debt crisis, but have in fact been developing over a longer time period.

Germany’s Federal Constitutional Court (FCC) got heavily involved in the country’s relation to the EU for the first time over the Maastricht Treaty of 1993, when it examined the treaty’s compatibility with the German Basic Law. While the court accepted its legal conformity, it also set out its view that the powers of the German Bundestag in the democratic process need to be properly protected and demanded explicit parliamentary authorisation to join the common currency area. The *Länder* – the regional authorities which make up the German federal state – have also acquired a claim in the formulation of the country’s European policy as a result of the constitutional court’s ruling, thereby increasing and diversifying the number of special interests driving Berlin’s relationship with Brussels.

The FCC’s mission to safeguard national parliament’s sovereignty was reestablished with renewed force in 2009 over the process of adopting the Lisbon Treaty. The court again judged the new treaty constitutional but also asserted the right of the German Bundestag to decide on the validity of further treaty changes or measures of integration. It expressed its skepticism toward further delegation of powers to European institutions that suffer from a democratic deficit:

As long as, consequently, no uniform European people, as the subject of legitimisation, can express its majority will in a politically effective manner that takes due account of equality in the context of the foundation of a European federal state, the peoples of the European Union, which are constituted in their Member States, remain the decisive holders of public authority, including Union authority.³⁰

³⁰ Press Release No. 72/2009, German Federal Constitutional Court, 30/06/2009. <http://www.bundesverfassungsgericht.de/pressemitteilungen/bvg09-072en.html>

The force of these legal constraints could be felt in Angela Merkel's approach to creating the rescue loan packages for Greece, Ireland and Portugal when she made every effort to make the bailout schemes legally watertight. A 'No' from the constitutional court on September 7th 2011 would not only have meant dooming the indebted peripheral countries to a messy default, but also probably the end of European integration in the short term. The financial help for Greece has indeed been put before the FCC on the grounds of alleged unconstitutionality and a final judgment is expected for autumn 2011.

Popular disenchantment with the institutional and bureaucratic turn the EU has taken in recent years is clearly not unique to Germany, but it is nonetheless more remarkable than say in the United Kingdom or even France. Among all EU members, the Germans seemed to have internalised the European idea most thoroughly and, since Germany has been the driving force behind European integration so far, growing euro-sceptic sentiment could have wide-reaching consequences. After the fall of the Berlin Wall, a renewed emphasis on German identity and a fading into the background of European issues were unavoidable. Generational change has deepened the disconnection between Brussels and the German population as the Cold War is rapidly becoming an exclusive subject for historians and peace and prosperity are taken for granted. Absent a much called for referendum, the abandonment of the *Deutschmark*, the symbol of Germany's post-war renaissance, in 1998 has turned large sectors of society openly against Europe even though joining the single currency was in Germany's own interest. But it is with the Greek crisis that Germans first experienced the adverse effects of European solidarity directly as fellow Europeans, who seemingly evaded taxes and enjoyed the benefits of an unaffordable welfare system, demanded to be bailed out by toiling and hard-working taxpayers further North. Without clear political leadership on the issue, the mass media were allowed to shape the internal debate. *Die Bild* in particular willfully played on public sentiment by indiscriminately portraying loans as transfers, the government as squandering taxpayer's money and the entire Greek population as work-shy, lazy early pension seekers. Be the truth as it may, these widely held impressions and feelings of betrayal have created lasting damage to the relationship between German society and the EU.

A level above the wider population the European consensus is also slowly falling apart among politicians. The process started with moderate skepticism toward the Maastricht Treaty so soon after the country had regained its absolute national sovereignty through reunification. The D-mark was abandoned by German lawmakers in 1998 for the single European currency by a large majority (575-to-35) but over the heads of an unwilling public and under criticism of Gerhard Schröder – then the SPD's chancellor candidate – who called the euro a "sickly premature birth".³¹ Real frictions emerged with the debates on a European constitution and later on the adoption of the Lisbon Treaty. The day of the vote Social Democrat Thomas Oppermann accused the Bavarian CSU and *Die Linke* (The Left), both opposed to the treaty, of chauvinism and forming an "anti-European alliance on the fringes of the German parliament". In response Peter Gauweiler, the CSU politician behind the lawsuits against the Lisbon Treaty and the

³¹ William Drozdiak, "Germany Approves Adoption of Euro", *The Washington Post*, 24/04/1998. <http://www.washingtonpost.com/wp-srv/inatl/longterm/euro/stories/german042498.htm>

euro rescue package, restated his position arguing that “it is better to defend the Basic Law together with outsiders than to break the law with the mainstream parties”.³²

The inter-party strife that accompanied the discussion on the Greek bailout in the summer of last year is the culmination of these long-term developments. The government’s decision to contribute €22,4 billion until 2012 to the first rescue package to lift Greece out of its fiscal disaster has been the object of fierce debate between politicians of all political stripes and even within party camps. Sigmar Gabriel, leader of the main opposition party SPD, urged his party to abstain from the decision on the grounds that the German taxpayer should not be asked to pay a second time, after the 2008 financial crisis, for the failures and misbehaviour of the financial sector. Peter Gauweiler declared that only a temporary Euro-exit could save Greece and the eurozone. *Die Welt* spoke of a “sharp debate”, another newspaper of a “Bundestag on Adrenalin”.³³ The result was a bailout-package put through parliament by 390 out of 601 possible votes, the authorisation salvaged by the opposition Green party after long and vigorous criticism of the Merkel government, and a national debate re-centred on taxpayers’ treatment rather than the euro-crisis itself.

Finally, enthusiasm for the European project at the apex of the German Federal Republic has been lagging since the end of Helmut Kohl’s chancellorship. A more self-assertive tone at the leadership level started under chancellor Gerhard Schröder, who famously based his 2002 re-election campaign on the slogan “The German Way” and became the first German leader to frequently and openly refer to German ‘national interests’ as guidelines for policy-making. While this rhetorical shift departed from the unambiguously pro-integrationist stance of previous chancellors Helmut Schmidt and Helmut Kohl, it had little political substance. Larger questions of European integration would not emerge under Schröder but occupy a substantial amount of his successor’s time. Angela Merkel, however, prefers pragmatic, step-by-step approaches in order to make perfectly informed and defensible decisions.

Katinka Barysch of the Centre for European Reform correctly remarks that whereas “for the generation of Helmut Kohl, the EU was a matter of war and peace, for Merkel it is one of costs and benefits”.³⁴ This ‘Merkel-method’ with its inherent lack of long-term vision and inspiration seems rather inappropriate, as the debt crisis amply demonstrates, at a time when Europe’s woes are largely image and identity related. Angela Merkel always defends the euro, but never European solidarity. To a large extent, the German chancellor embodies the whole country’s new approach to Europe which is based on sober calculation and material benefits rather than indiscriminate enthusiasm and support.

³² Sebastian Fischer, “Ja zu Begleitgesetzen: Bundestag macht Weg für EU-Vertrag frei”, *Der Spiegel*, 08/09/2009. <http://www.spiegel.de/politik/deutschland/0,1518,647644,00.html>

³³ *Die Welt*, “Nach Scharfer Kritik: Bundestag Stimmt für Athen-Hilfe in Milliardenhöhe”, 07/05/2010; Robert Birnbaum, “Bundestag auf Adrenalin”, *Der Tagesspiegel*, 8 May 2010

³⁴ Katinka Barysch, “The Dangers of a Disgruntled Germany”, *Centre For European Reform*, 07/05/2010. <http://centreforeuropeanreform.blogspot.com/2010/05/dangers-of-disgruntled-germany.html>

All these developments have to be factored in as one tries to understand the behaviour of politicians and the larger German population. Due to these internal pressures, the German leadership's response to the debt crisis in the eurozone has necessarily been hesitant, patchy and sometimes seemingly arrogant and nationalistic. *Europamüdigkeit* is, however, not synonymous with a complete denunciation of the European project. Angela Merkel, while lacking the vision and charisma of former Europhile chancellors, has repeatedly and openly defended the euro and the EU as this paper has been trying to show. The political parties have also demonstrated renewed support for Europe as the crisis has gotten worse. Striking a more conciliatory tone in a press conference ahead of the July EU summit, SPD leaders Sigmar Gabriel, Peer Steinbrück and Frank-Walter Steinmeier pledged to support "bold and courageous steps" to remedy the spreading crisis and to publicly stand by these decisions even in the case of a popular backlash.³⁵ Similarly, the FCC and the general public may dislike certain developments over the last two decades, but they are still a long way from openly attacking, or even consciously endangering, the European project.

³⁵ "Euro-Schuldenkrise: SPD bietet Merkel Unterstützung an", *Frankfurter Allgemeine Zeitung*, 18/07/2011. <http://www.faz.net/artikel/C30638/euro-schuldenkrise-spd-bietet-merkel-unterstuetzung-an-30467891.html>



Beyond the Euro-Crisis

Germany's behaviour during the still unfinished resolution of the sovereign debt issues in Europe is representative of wider trends in the development of its foreign policy since reunification in 1991. In many ways German foreign policy finds itself in a period of transition that is characterised by practical inconsistencies and ideological flux and whose final outcome is hard to predict. Various German political scientists and international affairs experts have attempted to conceptualise the complex changes underway in German foreign policy. Hanns Maull of Trier University has coined the term 'uncertain power' to describe a twenty-first century Germany which "rather than changing track [...] seems to be experiencing processes of hollowing-out".³⁶ In a similar vein, Dr Gunther Hellman speaks of "de-Europeanisation by default", arguing that Germany might be entering a new post-Bonn consensus, but not by design and without an ultimate objective or strategy.³⁷ Both interpretations are valuable in that they try to come to terms with the reality of there apparently being two Germanys at the moment. In this transitional period the old, meek advocate of European integration lives side by side with a new, self-assertive proponent of national interests.

The almost schizophrenic character of German actions to save the euro, and the rhetoric that accompanied the whole process, have already been identified as Angela Merkel is trying to save the eurozone and the European project while appeasing popular apprehension and stamping a lasting German footprint on the EU's institutional structures and functional norms. Those two sides of the same coin are also visible in other policy areas as a closer examination of recent developments in German energy, economic and security policy will demonstrate. As Germany has been growing more powerful and inward-looking and less convinced overall of the European project, its entire foreign policy is increasingly informed by the pursuit of national interests. But again, while with increasing power Germany has more frequently opted for 'going-it-alone' approaches over the last decade, these moves should not be equated with a complete abandonment of Germany's deeply engrained multilateralism and have more often than not been accompanied and balanced by more soft, institutionalised or cooperative approaches.

³⁶ Hanns W. Maull, "Uncertain Power: German Foreign Policy into the Twenty First Century", in Hanns W. Maull (ed.), *Germany's Uncertain Power: Foreign Policy of the Berlin Republic*, New York, 2006, p.273.

³⁷ Gunther Hellmann, "Lamed Power: Germany and European Integration", in Gunther Hellmann (ed.), *Germany's EU Policy on Asylum and Defence: De-Europeanization by default?*, New York, 2006.

Energy Security

Europeans have long been loath about what Gordon Brown called Russia's "energy stranglehold over Europe".³⁸ In 2007, Russia accounted for 44.5% of European gas imports, a third of crude oil imports and a quarter of coal imports, creating a situation of energy dependency which the EU has been trying to redress for years by encouraging the expansion of renewable energies, creating a common energy market, proposing alternative supply routes like the Nabucco pipeline connecting Europe with Central Asian gas fields, and confronting Russia with a united European front.³⁹ For all these reasons it came as a surprise to most European leaders when Germany and Russia agreed on a deal to build the Nord Stream pipeline across the Baltic North Sea connecting Vyborg in Russia with a small town called Lubmin on the Northern German coast. The deal shattered European aspirations of diversification of energy supplies and put the NABUCCO project on hold. It also damaged Germany's and the EU's reputation in Eastern Europe. In his former capacity as Poland's Minister of Defence, Radoslaw Sikorski compared the Nordstream project to the 1939 Molotov-Ribbentrop Pact. Although personal gains seem to have played a role in the deal (ex-chancellor Gerhard Schröder took up the chairmanship of the Nordstream consortium shortly after leaving office) a sense that in the field of energy security German national interests trumped European ones cannot be avoided.

Angela Merkel's recent U-turn on nuclear energy after the meltdown in Japan and under pressure of anti-nuclear public opinion and the surging Green Party, is going to further undermine a common European energy posture and open an opportunity window for Russia to strengthen its foothold in the European market. While France and the UK have remained steadfast in their belief in nuclear power as an important source of energy during the transition to a green economy, the Germans have decided to go their own way and will now have to replace the 24% of current electricity generation that emanated from nuclear energy within ten years. Russia's state-owned corporate giant Gazprom seems poised to take the opportunity and fill the emerging gap in Germany's energy mix with further gas exports. As Massima Di Odoardo of the energy consulting firm Wood Mackenzie puts it: "There are few alternatives to buy gas for Europeans. Russia is very well placed considering Nord Stream comes online just when it's needed".⁴⁰ Not surprisingly Germany's new Minister of the Economy Philipp Rösler recently proclaimed during an official visit to Moscow that gas will become more important in the near future to meet national energy demands.

While the bilateral relationship between Germany and Russia remains a recurrent cause for upset in Eastern Europe, Germany has, however, also used its important leverage with the Kremlin to speak up for European interests and values. Angela Merkel was the most vocal critic among European leaders when Russia shut down gas transmissions to Europe over a payment dispute with the Ukraine and she immediately took up a mediating role in resettling the situation. She has also put freedom and human rights issues firmly on the agenda of the bilateral relationship, and the Georgia conflict in 2008 has

³⁸ Gaby Hinsliff, "Russia Will Not Hold Us Ransom – Brown", *The Guardian*, 31/08/2008.

<http://www.guardian.co.uk/politics/2008/aug/31/gordonbrown.russia>.

³⁹ According to EU data, see: http://ec.europa.eu/energy/international/russia/russia_en.htm

⁴⁰ Andrés Cala, "Nuclear Crisis could be Russia's Boon", *International Herald Tribune*, 15/06/2011.

unveiled Angela Merkel's position as a trustworthy middleman with an unparalleled capacity to negotiate between Russia and the West. It can therefore be safely argued that Germany is interpreting its bilateral relationship with Russia in a way that actually furthers European interests.

In terms of European energy dependence the same holds true. The end of nuclear power in Germany, although necessarily entailing increased dependence on Russian imports in the short term, is fundamentally a further stepping stone on the way towards a greener energy industry, as defined by the German green lobby. Germany is already leading Europe in renewable energy technologies. The German Ministry for the Environment has recently calculated that in 2010 renewables accounted for 11% of total German energy demand and 17% of electricity consumption, and that the industry was employing 370.000 people.⁴¹ They are giving a strong boost to the country's high-class manufacturing sector and German companies, like QCells or SolarWorld in photovoltaic products and solar energy solutions, have become world leaders. Given its technological edge and popular environmental disposition, the Federal Republic's goal of a 100% conversion to renewable energy by 2050 is described to be "a very realistic target" as Jochen Flasbarth, president of the Federal Environment Agency, has argued.⁴² As such Germany has taken a leadership position in Europe's common endeavour to become more energy independent and carbon neutral which is balancing, or even superseding, its apparent abandonment of European positions on dependency on Russia and nuclear energy.

Economic Policy

In terms of economic policy, Germany is usually regarded as a successful and highly competitive economy characterised by current account surpluses based on a strong export sector, high savings and low unemployment rates. Yet the German model also has its critics who argue that Germany's high competitiveness is achieved on the back of peripheral countries within the framework of the common European currency area.

Germany, as already mentioned, sees debt-financed profligacy and lack of competitiveness of individual countries as the main cause for the current debt crisis in Europe. It feels its own economic model and values of discipline and thrift vindicated by the meltdowns of those economies that failed to live within their means after the 2008 financial crash. The opposite view is that real and financial imbalances within the eurozone have made the currency union vulnerable to asymmetric shocks. Since trade balances among countries are by definition a zero-sum game, surpluses in some countries are necessarily mirrored by trade deficits in others. Surplus cash from highly competitive economies then finds its way to weaker ones where negative real interest rates make borrowing very attractive which in turn creates bubbles. When an external shock affects such asymmetric common currency areas, the consequences

⁴¹ "Beitrag erneuerbarer Energien zur Energieversorgung in Deutschland auch 2010 weiter gestiegen", Press Release Nr.039/11 of the Federal Ministry for the Environment. <http://www.erneuerbare-energien.de/inhalt/pdf/47120/>

⁴² "Germany Targets Switch to 100% Renewables for its Electricity by 2050", *The Guardian*, 07/07/2010. <http://www.guardian.co.uk/environment/2010/jul/07/germany-renewable-energy-electricity>

will be nefarious. Following this interpretation, not individual rule-breakers, but the game itself is therefore at the heart of the eurozone's current quagmire.

Major imbalances have indeed occurred prior to 2008 in the eurozone as Germany achieved high levels of productivity and was very adept – or ruthless some might argue – in keeping real unit labour costs down, thereby creating a competitive advantage which encouraged exports on a large scale. While over the past decade wages rose significantly in most eurozone countries, they largely stagnated or even fell in Germany. According to a report of the International Labour Organization, German wages between 2000 and 2009 (adjusted to inflation) have on average fallen by 4.5% – the worst result of 29 developed countries surveyed.⁴³ Former Greek Finance, Economy and Defense Minister Yannis Papantoniou has described German wage deflation as a “strategy of competitive devaluations that the EMU was supposed to ban forever”.⁴⁴ By enabling German products to compete in foreign markets, the Federal Republic has thus become today's second-largest exporter and amassed very significant current account surpluses.

The downside of the German success story is that other eurozone members' relative competitiveness necessarily decreases, that they run external deficits and become more reliant on borrowing. This leads to the obvious yet fundamental question: who can actually live in a currency union with Germany? “Germany has only been able to be itself – an economy with chronically weak demand and vast external surpluses – because others have been the polar opposite. If Greeks and Spaniards must become more German, then Germans must become less so”, concludes Philip Whyte of the London-based Centre for European Reform, adding that addressing its current account surpluses by encouraging internal consumption and investment would be the best way forward for Germany.⁴⁵ Among the most senior politicians in Europe, Christine Lagarde, the IMF's new director, has also publicly chided the German leadership for failing to do its own homework on its destabilizing surpluses while lecturing others about German virtues. “It takes two to tango” she remarked dryly.⁴⁶

Yet German politicians have so far been unwilling to listen, adding to the frustration and sense of injustice among other eurozone countries. They understand foreign criticism as expressions of jealousy and empty excuses of those who simply cannot compete internationally. German officials feel unfairly lambasted particularly because they view their current competitive edge as the result of years of discipline, vigour and even hardship while other countries went on a decade-long debt-sponsored spending spree. Last year, in front of the German Bundestag, Angela Merkel proclaimed defiantly that “we will not surrender our strength, just because our exports are purchased more than those of other

⁴³ “Global Wage Report: Datenblatt Deutschland 2010/2011”, *International Labour Organization*, p.3.

⁴⁴ Yannis Papantoniou, “The Lessons of the Eurozone Crisis that Should Shape the EU's G20 Stance”, Fellowship Report for *Friends of Europe*, p.35.

[http://www.friendsofeurope.org/Portals/13/Events/Roundtables/2011/Taming the turmoil/Lessons of Eurozone Crisis that Should Shape the EU's G20 Stance.pdf](http://www.friendsofeurope.org/Portals/13/Events/Roundtables/2011/Taming%20the%20turmoil/Lessons%20of%20Eurozone%20Crisis%20that%20Should%20Shape%20the%20EU%27s%20G20%20Stance.pdf)

⁴⁵ Philip Whyte, “Why Germany Is Not a Model for the Eurozone”, *Centre For European Reform*, p.11.

⁴⁶ Ben Hall, “Lagarde Criticises Berlin Policy”, *The Financial Times*, 14/03/2010.

countries".⁴⁷ As ever, German politicians do, however, reassure their partner countries after calming their domestic constituencies. Both Wolfgang Schäuble and former Bundesbank chief Axel Weber have responded to criticism by arguing that increasing imports and domestic demand since 2008 have already helped other EU countries grow out of recession. Although exports are still rising faster than imports, their claims that the German economy is already rebalancing and can act as a locomotive for growth for the rest of Europe certainly holds true to some degree. Imports have grown year-on-year like never before this decade and with a total value of €79.4 billion imports the month of March this year has also set a new record.⁴⁸ Private consumption in the last two quarters was up 1.8% and 1.9% respectively from last year, the largest year-on-year growth since 2006.⁴⁹ In 2010 the share of internal demand in total GDP growth – which stood at a whopping 3.6% over the last year – has increased to roughly two thirds, allowing Wolfgang Schäuble to state confidently that “there are clear signs that the impetus from foreign trade and an improved labour market have now led to stronger domestic demand”.⁵⁰

A more cooperative approach that softens national interests by integrating them into a European framework has also been evident in Germany’s actions and proposals to resolve the eurozones fiscal problems. Since, as we have already noted, the eurozone is crucial to Germany’s current economic success and political influence, the post-crisis order as envisaged by the German leadership would comprise a larger degree of macroeconomic convergence and a more harmonised economic governance regime at the European level. These proposals are still a far cry from a fully fledged fiscal union or a European finance ministry that Jean-Claude Trichet recently asked for when accepting the Charlemagne Prize for his outstanding services to Europe. Nonetheless enhanced cooperation on, and supervision of, national budgets and fiscal matters will eventually move Germany towards a more collaborative stance on its current account surpluses, especially when the inevitable normalisation of the country’s export growth will set in.

⁴⁷ Philip Whyte, “Why Germany Is Not a Model for the Eurozone”, *Centre For European Reform*, p.5

⁴⁸ According to data from the Federal Statistical Office.

<http://www.destatis.de/jetspeed/portal/cms/Sites/destatis/Internet/EN/Content/Statistics/TimeSeries/EconomicIndicators/ForeignTrade/Content100/ahl110a,templateId=renderPrint.psmI>

⁴⁹ According to data from the Federal Statistical Office.

<http://www.destatis.de/jetspeed/portal/cms/Sites/destatis/Internet/EN/Content/Statistics/TimeSeries/EconomicIndicators/NationalAccounts/Content100/kvgr115x12,templateId=renderPrint.psmI>

⁵⁰ Statement by Wolfgang Schäuble to the International Monetary and Financial Committee. See:

<http://www.imf.org/External/spring/2011/imfc/statement/eng/deu.pdf>

Defence & Security Policy

National security and military posture remain the most sensitive issues as Germany, on the back of its booming economy, is growing ever more powerful. It is the one policy area where the memory of two World Wars and fascist expansionism still strongly informs decision-making. Some concerns have been raised over the last decade in relation to two trends in German security policies: its acceptance of a 'normal' military posture and its alleged growing unilateralism. Both developments are to a certain degree real but yet again they do not so much represent fundamental departures from earlier behaviour as logical and continuous developments.

In 1994, a ruling of the German Constitutional Court ended legal ambiguity by giving the green light for German military operations abroad under the umbrella of UN, NATO or WEU mandates. 1999 proved another watershed when in Kosovo the *Bundeswehr* for the first time in post-war history participated in combat missions. Today German land, navy and air forces operate in the Balkans, the Horn of Africa, Afghanistan and other conflict zones. The last strategic paper on German defense policy, the White Book of 2006, considerably widened the scope of German national security to economic matters and geographical areas far outside Germany's immediate neighbourhood.

The other trend in German defence policy that has worried allied nations over the last ten years is a growing tendency to take unilateral decisions which seemingly show the face of a new Germany that is less anchored in the Western community. Gerhard Schröder's decision not to join the US and the UK in the invasion of Iraq, and his choice to make that particular decision an issue in his reelection campaign, have shown first rifts in the Western security alliance. But while Germany was backed in its refusal to oppose the Iraq War by France and other Western nations, and justified by the legal uncertainties surrounding the invasion, in the more recent case of Libya Germany found itself completely isolated in the Western world through its decision to abstain from UN Security Council Resolution 1973. By doing so, the Germans alienated the press and large swaths of the political world like rarely before, although the wider public largely supported the move. Former German Foreign Minister Joschka Fischer accused the Merkel government of completely undermining Germany's legitimacy and status in the Western world and of permanently dashing the country's hopes for a permanent seat on the UN Security Council. The German daily *Die Zeit* reproachfully noted that Germany had decided to "go the cheap way".⁵¹ The abstention put Germany effectively in a league with the BRIC countries who all abstained likewise.

⁵¹ "Deutschlands feige Aussenpolitik", *Die Zeit*, 18/03/2011. <http://www.zeit.de/politik/deutschland/2011-03/libyen-sicherheitsrat-westerwelle>.

Single-minded decisions of German governments in foreign affairs often morph into outlines of a new *Sonderweg* in popular discourse, and even a modest and legally constrained remilitarisation of Germany is enough to spark fears and anxieties in some quarters. Yet, in essence the old German values of pacifism and multilateralism have barely changed. It is merely appropriate that Europe's most populous state and largest economy should acquire a military posture of its own. Military unilateralism, however, remains an impossibility as German governments remain bound by their Basic Law to use armed forces only under the directive of a wider alliance or cooperative venture such as NATO. That is why the only *Sonderweg* Germany can choose to follow at the moment is a *defensive* one as in the Libya resolution. A closer look at Germany's behaviour over the Libya crisis reveals, in fact, an astonishing mixture of a new maturity in foreign policymaking and an enduring aversion to military conflict. Niels Annen of the German Marshall Fund is wrong in arguing that "Westerwelle had no policy in place" on Libya, that the German government was taken by surprise and simply made a mistake. The abstention on UNSC Resolution 1973 was a conscious decision taken jointly by the Foreign minister, Angela Merkel and Defense Minister Thomas De Mazière on the premise that Germany would not engage in another military operation after Afghanistan whose final purpose and exit strategy remain vague, where Germany would have little freedom for decision-making and which would be hugely unpopular among the wider population.⁵² Moral support for the Libya intervention was never lacking in Berlin and even before resolution 1973 was put to vote De Mazière reassured NATO General Secretary Anders Fogh Rasmussen that the alliance would not in any case be put in doubt by the German decision on Libya. After the vote Angela Merkel very vocally stated that the abstention was not synonymous with neutrality on this issue and offered to take over additional burdens in Afghanistan to relieve NATO forces for operations in Libya. The commitment of Germany to the Western alliance has remained as steadfast as ever. So has German reluctance to participate in military operations. A hard-powered foreign policy is still anathema in Berlin despite its resurgence as an economic powerhouse and political player on the world stage. Therefore, the new Germany is more than just an "unadventurous eagle" as *The Economist* lately proclaimed: it remains a responsible stakeholder in the international system which fundamentally prefers to exert its power through diplomatic, institutional and commercial means.⁵³

⁵² Andreas Rinke, "Srebrenica or Afghanistan? Why Germany Abstained on the Libya Vote – Tracing the History of a Decision", *Internationale Politik*, ... <http://www.ip-global.org/2011/06/14/srebrenica-or-afghanistan/>

⁵³ "German Foreign Policy: The Unadventurous Eagle", *The Economist*, 12/05/2011.



Conclusion & Policy Implications

At the highpoint of Germany's frustration with Greece, the leading German intellectual Jürgen Habermas described the new Germany as a "self-absorbed colossus" losing interest in its time-honored virtues of multilateralism and Europeanism and enjoying its final return to normality and acceptance as a regular nation-state.⁵⁴ Indeed, Germany's sometimes narrow-minded and self-assertive behavior in resolving the euro crisis has taken EU partners and observers worldwide by surprise. As we have seen, however, the 'new' German foreign policy is not a sudden *volte-face* but the outcome of various long-term developments which, since the fall of the Berlin Wall, have simultaneously catapulted Germany into a position of unprecedented power and drained the country's population of its former enthusiasm for the European project. The eurozone quagmire did reveal new features of a resurgent, more inward-looking and more self-interested Germany but these changes are also far more subtle and not as consequential as Habermas suggests and many others fear. The tone, the methods and the attitude of German policy toward Europe and the wider world have all changed, but in substance the new 'Berlin consensus' is in many ways the organic successor of the Cold War 'Bonn consensus'.

The Euro-crisis illustrates this perfectly. Adam Posen, a senior fellow at the Washington-based Peterson Institute for International Economics, puts Germany's relation to the Euro as follows: "It was and still is a blessing for Germany to be the economic engine within a currency union. Not mere goodwill but sober assessment should lead Germany to fight for the Euro".⁵⁵ This viewpoint is almost identically echoed by Chancellor Merkel when she publicly stated that "we do not need to love our currency, we need to evaluate how much it helps us, and the Euro does so in every aspect".⁵⁶ Therefore, while at the surface uncritical and largely emotionally driven euro-enthusiasm is being replaced by a rationalised cost-benefit approach, the fundamentals of German power have not altered. Germany knows that its power will continue to derive from soft institutional structures and economic clout, rather than a robust hard powered foreign policy. However, that economic clout is inexorably fused to the economic structure of the EU, around which Germany has built its foreign policy goals. This pattern of a self-confident nation, now capable and willing to assert itself and its interests and yet averse to exerting its influence unilaterally or by force and mindful of softening the edges of its power through institutional, diplomatic and cooperative means, has been repeated in the last decade in German energy, economic and security

⁵⁴ Jürgen Habermas, "Germany's mindset has become solipsistic", *The Guardian*, 11/06/2010.

⁵⁵ Adam Posen, "Die Vorteile der Vielfalt: Deutschland ist Hauptnutznießer des Euro-Raums. Zeit, dass man ihm das sagt", *Internationale Politik*, April/March 2011, p.58.

⁵⁶ Nikolaus Blome & Alfred Draxler, "Kanzlerin Merkel zur Euro-Krise: 'Jedes Land ist für Seine Schulden Selbst Verantwortlich'", *Die Bild*, 23/03/2011.

policy. Hence the euro-crisis is merely part of the larger transition of German foreign policy which is outgrowing its post-war straitjacket. Morgenthau's age old synopsis of global power as states pursuing interests defined in terms of power is tested here. Germany is seen by many as the first soft power superpower . A state with realist aims, pursuing interest defined in terms of power, but via soft power methods.

This foreign policy strategy contrasts sharply with that of the United Kingdom's hard powered reactive short-termism. It is a strategy crafted over decades rather than years, and often by unelected strategists and bureaucrats rather than politicians. Such is the investment in Germany's long term foreign policy goals, its ability to react pragmatically to crises is somewhat hampered, however its strength is in its depth, and the clear commitment of its leaders to the vision of rebuilding Germany as Europe's superpower. As long as these fundamentals remain, Germany will remain the backbone of the European project, and therefore able, if given the time, to turn any crisis into an opportunity for ever greater control.

Over the course of the crisis the German leadership has been repeatedly forced into undesirable positions by the markets, its EU partners and its own internal pressure groups. Yet in the end, despite the ups and downs, Angela Merkel and her supporters seem to have managed to integrate the solution of the eurozone's troubles into its wider long-term strategy by increasing the political specturm of the EU and German influence therein.

Looking at Germany today from this angle has certain implications for those policymakers having to deal with it. **-Firstly**, it matters that Germany is currently in a transitional period where its decades-old political certainties and pillars of foreign policy are being shaken. This means that Germany will not exactly behave in accordance with a single preconceived pattern; it will hesitate, make U-turns and be inconsistent in the short term to protect its long term goals. It also means that Germany will be susceptible to external influences and that leaders of other European countries will participate in shaping the new Germany, and this offers as great an opportunity for UK policy makers as a challenge. **-Secondly**, it should be UK politicians' first task not to lose Germany in transition and let it grow into an unrestrained European hegemon. Germany's influence and power resources should be enhanced to benefit *all* of Europe, for example, by using its special relationship with Russia, by leading in green technologies, by balancing its economy from its export-dependency in order to share in its economic success, or by expanding its role in multilateral institutions. **-Third**, such goals cannot be achieved by challenging Germany's political leadership head-on and pushing it to embrace communitarianism. A newly powerful Germany and a restive population will repudiate such pressures; even worse, they would probably push it deeper down the road of self-interest and narrow-mindedness. Demands should focus on issues where reforms would be beneficial for Germany and the rest of Europe. Such areas of potential mutual benefit include boosting domestic demand in Germany. The political leadership should refrain from keeping down wage levels which will probably rise automatically as the labour market tightens. Stronger internal demand would allow living standards to rise and Germany to wean itself off

its export dependence while a rebalanced German economy would do much to limit the surplus cash flows from the European core to the periphery which wreaked havoc in Greece, Ireland, Portugal and Spain.

-Lastly, mindsets need to change and the realities of power on the European continent have to be accepted. Sometimes compelling demands made by German governments will therefore have to be accommodated, as has happened several times over the rescue of the indebted peripheral economies from bankruptcy. This does not mean, however, a complete surrender to German interests in Europe, but an acknowledgement that no country can be expected to lead through voluntarism. Germany today is a modern nation-state like all others and it rightly regards foreign policy not as a charity gala but a means to advance its own interests, although by recurring to non-coercive methods and collaborative initiatives. We are witnessing something of a novelty in international relations in Germany becoming the world's first soft superpower pursuing its own state interests, but entirely through soft channels and by cooperative, non-coercive means, the EU being the main pillar of this strategy. By following these measures the new Berlin consensus, that is being shaped to replace its predecessor rooted in the Bonn republic, could in the end turn out to be a blessing for the rest of Europe rather than a threat, and amid the continued uncertainty of the global economic crisis, a blessing for the UK.

Whilst many Eurosceptics may balk more at the thought of an EU powered by Germany, than of Germany as a European hegemon, it is important to consider the alternative. The eurozone, and the EU itself, simply could not survive without Germany, and moreover without the determination of the German government to save it. For many Conservatives in the UK such a collapse may be desirable politically, but it remains inescapable that such an event would herald the beginning of an economic dark age, incomparable in living memory.

In the medium term, if the UK can retain much of its sovereign power with limited fiscal responsibility in Europe, whilst Germany continues to underwrite the eurozone, it should be considered a compromise worthy enough to at least weather the storm of economic turmoil. As George Osborne put it: "The eurozone countries need to accept the remorseless logic of monetary union that leads from a single currency to greater fiscal integration [...] A disorderly outcome would be disastrous for everyone, including Britain, so we should allow greater integration to happen, while ensuring we are not part of it and our own national interests are protected".⁵⁷

While ambitious plans for partnerships in emerging economies are laudable, and necessary, we would be unwise to forget the necessity to remain keen students of our nearest neighbors. Understanding the German government's policy and the German mind, as this paper attempts to demonstrate, therefore remains as significant for foreign policy makers in the UK in the 21st century as ever it was.

⁵⁷ Benedict Brogan, "A Big Step: Osborne Promises to Back Eurozone Integration", *Daily Telegraph*, 08/08/2011. <http://blogs.telegraph.co.uk/news/benedictbrogan/100099857/a-big-step-osborne-promises-to-back-eurozone-integration/>



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http://www.focus.de/panorama/welt/tsunami-in-japan/wirtschaftliche-folgen/ifo-chef-hans-werner-sinn-deutsche-wirtschaft-steckt-japan-krise-weg_aid_609664.html

⁸ Wolf Lepienes, "'Grande Nation': Der Gefährliche Neid der Franzosen auf Deutschland", *Die Welt*, 23/02/2011, see: <http://www.welt.de/debatte/kommentare/article12626263/Der-gefaehrliche-Neid-der-Franzosen-auf-Deutschland.html>

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For further information on this paper and the Bow Group Foreign Policy & Security Committee please contact Ben Harris-Quinney (Committee Chair) at foreignaffairsandsecurity.policy@thebowgroup.org