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# Franco-German Leadership in the EU: Lessons from the Euro Crisis

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Since the outbreak of the Euro crisis in 2010 the European Union seems to tumble from one crisis to the next: From Arab spring to the Ukraine conflict, from Syrian civil war to the refugee crisis. So far the EU members did not find a way out of these crises. Although in times when all EU partners seem to be paralyzed by an aversion of strengthening the EU institutions they might be forced working closer together anyway.

Against the background of a general loss of orientation inside the EU this article takes a closer look at the handling of the Euro crisis. It discusses whether revived Franco-German leadership inside Europe might be an option to give orientation to all EU members. Starting with a brief review of the strengths of this bilateral couple during the initial phase of European integration it is the aim to detect its unique capability to lead the EU out of European crises. Since Germans and French after serious disputes and despite different economic interests managed to work together for European solutions, both might be a role model for all EU members. The way the governments in Berlin and Paris overcame their differences during the Euro crisis delivers insights for all EU partners to cope with the structural economic imbalances.

*Keywords*: Euro crisis, leadership in Europe, Germany, France, Franco-German couple.

## 1. Introduction

In times of permanent crises within and outside of Europe, there is no alternative to effective leadership in order for the European Union to end the quagmire of seemingly endless discussions without solutions in Brussels (e.g., the Euro crisis is still not solved despite more than 80 extraordinary meetings on the issue, and the refugee crisis as a consequence of the Arab uprisings and the civil war in Syria frequently returns as a topic of EU summits). The urgency of (re)viving or (re)inventing adequate leadership in and for Europe rises as the debate about German hegemony in the EU accelerates in many Member States. The strange muddle of complaints about too little German

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leadership in times of crisis and of warnings of a return of ugly German dominance points to a widespread desperation in search of common solutions – and leadership – in a complex organisation of 28 member states. The national and European disputes about different responsibilities, duties, and special obligations are as confusing and hard to understand as the problems the EU has confronted at least since the outbreak of the Euro crisis in 2010.

Without going into detail here, the difficulties of the EU Member States to cope with different and multi-faceted crises during the last decade can be read as proof of missing leadership inside a European Union that is operating on the basis of a highly elaborated treaty and institutional architecture.[1] Although this argument clearly requires further elaboration, it is readily apparent that unilateral German leadership in Europe – already marked as dangerous 'hegemony' or return of the 'Nazis'[2] – can be no solution. Since all responsible political forces need to avoid the danger of a harmful polarisation,[3] they have to find other ways to lead the community out of the crises.

As a consequence, this argument will start out from the premise that the traditional, special and shared responsibility of Germany and France for leadership in Europe, which has been the driving force between all past revisions of the treaties, still exists – at least in economic terms. On this basis, my argument is that as long as there is no viable alternative, both founding members have an obligation to intensify their long-standing cooperation for the economic benefit of the community, and for their own sake as well. This means that despite the recurring ambition of the Presidents of the European Commission to play a leadership role for the Community as a whole and the continuous evolution of the treaties that has led to the creation of new positions such as a permanent President of the European Council, traditional intergovernmental mechanisms stemming from the early days of the EC-6 still prevail in many policy areas. This kind of traditional leadership within – and for – the EU seems to be needed, especially when new challenges arise and routine procedures, fixed in the treaties, do not deliver convincing answers or no answers at all. Times of crises are such situations.

The goal of this article thus is to examine under which conditions a closely cooperating Franco-German couple might be able to fill the persistent leadership gap at the European level. After a brief survey of important attempts of Paris and Berlin to play a leading role in European integration history, I will analyze the policy performance

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1 For different leadership approaches see: D. Beach, C. Mazzucelli (eds), *Leadership in the big bangs of European integration*, Houndmills/New York: Palgrave Macmillan, 2007; J. Hayward (ed.), *Leaderless Europe*, Oxford University Press, Oxford 2008.

2 V.-I. Herr, 'We need to talk', *The European*, 21 May 2015, http://www.theeuropean-magazine.com/stylia-kampani/10161-improving-german-greek-relations; U. Speck, *Why Germany is not becoming Europe's hegemon*, Madrid 2012 (FRIDE Policy Brief 126).

3 D. Brösler, Th. Kirchner, 'Euro-Krise: Buhmann Deutschland', *Süddeutsche Zeitung*, 15 July 2015; Charlemagne, 'In Germany's shadow', *The Economist*, 28 March 2015; S. Bulmer, W. E. Paterson, 'Germany as the EU's reluctant hegemon? Of economic strength and political constraints', *Journal of European Public Policy*, 2013, Vol. 20, No. 10, pp. 1387–1405.

of the German and French governments in responding to the global economic crisis of 2008 and the euro crisis since 2010. After this analysis, in which I limit my focus to the question of when and how Franco-German leadership as a key factor for brokering solutions in the eurozone has worked out or failed, I will discuss the consequences of these results for national policies as well as for the EU.[4]

## 2. Successful Franco-German economic cooperation for Europe

Before any analysis of potential or real Franco-German responsibilities during European crises, it is critical to first recall the historical record.[5] During the second half of the 20th century, there was no doubt that the French President and the German Chancellor had to forge a compromise around which other Member States could coalesce if the EC/EU was to respond effectively to instability or turmoil. This kind of bilateral cooperation paved the way for the European Monetary System (EMS) during the 1970s, successfully implemented the Single Market Program in the mid-1980s and – most importantly for the fate of Europeans east and west of the crumbling Iron Curtain – the Franco-German initiatives following the continental upheaval in 1989 yielded the plans for Maastricht and the perspective of a Europe that was truly 'whole and free'.

Throughout, there was a deeply rooted and commonly accepted tradition of closely coordinated Franco-German initiatives, which gave orientation to other members and helped forge common ways to strengthen the bonds of European integration.[6] Yet, we have to keep in mind that almost all successful bilateral initiatives had been located in the economic sphere of cooperation and integration. Since the 1950s, Paris and Bonn managed to combine completely different ideas of economic governance at the European level: German ordo-liberal thinking and French state interventionism; German rule-addiction with no direct governmental interference in economic processes and France's central planning and micromanagement of the economy by the political class and institutions.

As a consequence of the collapse of the Bretton Woods monetary system in 1973, the German preference for monetary stability as the foundation for European economic welfare in a turbulent international environment prevailed in the newly established EMS in 1979. At the same time, the persistent French preference for monetary stabilisation manifested itself in the common market intervention duties of all central banks. The idea

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[4] For the completely different challenges in the area of EU foreign and security policy see: F. Bindi, I. Angelescu (eds), *The Foreign Policy of the European Union: Assessing Europe's Role in the World*, Washington, D.C.: Brookings Institution Press, 2012; W. Hilz, *Europas verhindertes Führungstrio. Die Sicherheitspolitik Deutschlands, Frankreichs und Großbritanniens in den Neunzigern*, Paderborn et al.: Schöningh, 2005.

[5] D. Dinan (ed.), *Origins and Evolution of the European Union*, 2nd ed., Oxford: Oxford University Press, 2014.

[6] U. Krotz, J. Schild, *Shaping Europe: France, Germany, and Embedded Bilateralism from the Elysée Treaty to Twenty-First Century Politics*, Oxford: Oxford University Press, 2013.

of the EMS is still at the core of the European Monetary Union (EMU) of our days. The German preference for reduced state interventionism prevailed just as it did in the prior economic project, the common market. With the initiative to finalise the EC market until 1992, the French government of François Mitterrand gave up the option to intervene for the protection of national companies directly. As a consequence, the German preference for stability-orientation and autonomy of market and monetary affairs from the political sphere became the hallmark of the European economic project. French economic interests had to be protected by upholding large state-dominated companies and retaining the EU's large-scale grants in agriculture and cohesion policy.

The euro – as a further integration project – was not just another economic step towards closer – and increasingly irreversible – cooperation of two former archenemies. It also was – and is – a symbol of the bilateral political will, embedded in a European framework, to overcome harmful national divergences in the sensible area of monetary policy. Again, in Maastricht[7] German and French preferences were combined in a bilateral compromise, binding the German condition of stability orientation, fixed in compulsory conditions for all members of a common currency union, together with the French will to fix a timetable for the euro.

Based on this Franco-German compromise, Kohl and Mitterrand managed to convince the opposed camps of EC Member States they represented – the Northern EC countries, which were oriented towards the German stability course, and the Southern Member States (sometimes referred to as the 'Club Med'), which were fairly used to flexible solutions in monetary, fiscal and economic affairs – to adopt the compromise. The treaty rules for the future common currency were the basic compromise all EC members agreed to and essentially designed to organise the transition into a new era of governance: With the signing of the Maastricht treaty, Franco-German leadership was to be terminated in the monetary area and handed over to common mechanisms and EU institutions like the European Central Bank (ECB).

Yet, there remained a need for Paris and Bonn to assume responsibility. The first hint of a continuing need for Franco-German leadership in monetary policy was the German push to establish an additional safeguard mechanism to guarantee the continued stability-orientation of economic and monetary governance throughout the emerging eurozone beyond the official start of the common currency: In 1997, Chancellor Kohl and his Minister of Finance Waigel urged the reluctant French President Chirac to agree to an additional 'Stability and Growth Pact' (SGP) obliging all euro members to permanently adhere to the monetary stability criteria originally conceived only as a one-off condition for joining the EMU. The German pressure for the SGP was a clear sign of mistrust towards the 'Club Med' – including France – and stood for the doubts

[7] K. Dyson, K. Featherstone, *The Road To Maastricht: Negotiating Economic and Monetary Union*, Oxford: Oxford University Press, 1999.

of the ‘Northern camp’ that mere treaty obligations could – and would – compensate for genuine fiscal and budgetary coordination.

These few examples of Franco-German leadership attempts and efforts to forge compromises among the rest of the group reveal two insights: (1) Both founding members of the European Union never had a formalised basis or mechanism for a leading role in the supranational or intergovernmental governance of integration but (2) had to play a de facto informal leadership role outside of the elaborate institutional framework in Brussels for decades in order to bind the Northern and Southern camps together.

Thus, the real centre of leadership inside the European Union has never been institutionalised but has always been volatile and dependent on personal relationships among the key actors in both capitals and ‘bilateral chemistry’. As long as Franco-German initiatives were based on a broadly accepted compromise, the French President and German Chancellor had the opportunity to play a leading role within the community of (formally) equal members.

With the treaty progress of the European Union – from Maastricht to Lisbon – and the enlargement of the Union from 12 to 28 members, however, bilateral initiatives from Paris and Bonn or Berlin appeared increasingly dispensable. Yet, in times of economic crisis and mounting insecurity beyond the borders of a more heterogeneous union, the call for strong leadership again sounds louder than ever. In this situation, Franco-German initiatives seem to be more needed than before, even if the request is limited to the economic integration of the European Union.

## 3. Franco-German reactions to the global economic crisis of 2008

In retrospect, the working relationship of German Chancellor Angela Merkel and French President Nikolas Sarkozy is often characterised as a very close and successful one. But a more detailed analysis of the years 2007 to 2012 tells a more nuanced and complicated story. Although EU Member States are still responsible for their respective national economic and fiscal policies, they have been closely tied to each other by the EMU since Maastricht. With respect to the aforementioned integration history and the special Franco-German role in monetary policy, however, close bilateral economic cooperation seemed to be indispensable in light of the severe economic crisis.

The first economic test case for the Franco-German couple occurred when the global economic crisis began in fall of 2008. After the bursting of the US housing bubble and the bankruptcy of Lehman Brothers, both governments failed to launch common initiatives inside the EU: While Sarkozy demanded financial support at the European level, financed to a great proportion by Germany, Chancellor Merkel preferred what she considered to be faster and more reliable national signals (and thus to use German money for bailing out German businesses and banks). As a consequence of the German reluctance to establish a joint EU rescue fund, each European government individually guaranteed the survival of major banks by giving them the necessary loans or taking them over.[8]

With respect to close Franco-German cooperation, this scheme of reaction was a failure since there were no common initiatives from Paris and Berlin to forge common European solutions. As a consequence, there was no substantial bilateral – let alone multilateral – reaction to the global financial crisis until the EU summit in December 2008. In contrast, Merkel's refusal of Sarkozy's proposal to launch community programs to overcome the crisis by mobilising German tax payers' money for all EU Member States was an explicit signal to Paris and the rest of the Union: Berlin was not willing to pay for all and decided to resist French calls for so-called – but largely one-sided – 'solidarity' in times of economic crisis. Indeed, a majority in the German Bundestag interpreted the call for 'solidarity' as a demand for unconditional German monetary aid. Although Angela Merkel, like her predecessor Helmut Kohl in the 1980s and 1990s, had already mobilised additional German financial contributions to solve European problems in the past (in late 2005 she debuted in Brussels with a solution for the Multi-Annual Financial Framework of 2006–2013 based on enhanced German contributions), she was not ready to adopt a similar strategy in 2008. One reason for Merkel's hesitance might have been the fear of establishing new and incalculable financial transfer mechanisms within an economically more and more heterogeneous EU. Another reason was the persistent German desire to avert any dynamics in the direction of an 'economic government', which all French governments since Mitterrand had demanded.

Without discussing the substantive rights or wrongs in this dispute, it is clear that both governments failed to play a leadership role inside the EU by closely coordinating their individual preferences in the tradition of their predecessors Schmidt and Giscard d'Estaing or Kohl and Mitterrand. The inability of Merkel and Sarkozy to do so has to be seen against the background of the persistent antagonism of German and French preferences regarding economic governance, that is of ordo-liberal thinking vs. state interventionism. Growing economic pressure did not soften these contradictions but even seemed to reinforce them. Additionally, during the months before the economic challenges arose, foreign policy disputes between Paris and Berlin weakened both partners' readiness to compromise: In the spring of 2008, both had a major dispute over the unilateral French plans for an exclusive Southern Mediterranean Union, and in August 2008 Sarkozy's unilateral management of the Russian–Georgian war was openly criticised by Berlin.

Against this background, it took more than half a year until the French and Germans found a way to overcome their differences with regard to a common EU reaction to the economic crisis. In the run-up to the G-20 summit in London in April 2009, Merkel

8 Ian Trainor, 'EU giant isolated as Merkel puts Germany first', *The Guardian*, 12 December 2008, http://www.theguardian.com/world/2008/dec/12/merkel-germany-european-union-summit.

and Sarkozy finally presented a joint bilateral position, but this time they were not able to convince Britain's Prime Minister Gordon Brown to accept stricter limitations of the financial markets.[9] As a result, the German and French governments succeeded in coordinating their national economic and crisis reaction policies, but they failed to build a viable coalition inside the EU.

## 4. Franco-German 'detour' towards bilateral leadership 2010

The main challenge with regard to Franco-German cooperation inside the EU emerged when the devastating consequences of the global financial crisis proliferated inside the eurozone in 2010. What is now known as the euro crisis began when the new Greek Prime Minister Papandreou revealed in late 2009 that previously published data on his country's budget had been forged and that the Greek deficit was in fact more than three times as high as previously stated – 12% instead of 4% of GDP. Although, again, Paris was quick to call for German financial assistance to Greece in February and March 2010, Berlin was determined to evaluate all possible multilateral support measures – for example IMF loans – before deciding on financial aid at the EU level.[10]

By insisting that all steps had to be negotiated between Berlin and Paris before being decided within EU and euro institutions, Chancellor Merkel re-established the scheme of her preferred reaction: This mechanism required French politicians to stop their efforts to circumvent bilateral consultation by unilateral demands for German instead of common European funding. But when the Greek crisis escalated in the spring of 2010, neither Paris nor Berlin managed to restart this mechanism in time. To help Greece, the euro partners, pushed by the Eurogroup and the European Commission, finally agreed on a package of bilateral loans by most EU Member States and the IMF amounting to a total of 110 billion euro in April 2010. And they created a temporary emergency fund worth more than 700 billion euro, the European Financial Stability Facility (EFSF), in case other euro members should require extraordinary lines of credit. This was the basis for the permanent European Stabilisation Mechanism (ESM) all EU members rely on today.[11]

Although at this point in the summer of 2010 the emerging default crisis in Greece forced all EU members to cooperate, there still were no common bilateral

[9] 'G20 summit: Nicolas Sarkozy and Angela Merkel demand tough market regulations', *The Telegraph*, 1 April 2009, http://www.telegraph.co.uk/finance/g20-summit/5090442/G20-summit-Nicolas-Sarkozy-and-Angela-Merkel-demand-tough-market-regulations.html.

[10] Charlemagne, 'A Grimm tale of euro-integration,' *The Economist*, 18 February 2010, www.economist.com/node/15549113; Melanie Morisse-Schilbach, "Ach Deutschland!", Greece, the Euro Crisis, and the Costs and Benefits of Being a Benign Hegemon', *Internationale Politik und Gesellschaft*, 2011, Vol. 1, pp. 26–41.

[11] W. Mussler, P. Welter, '720-Milliarden-Schutzprogramm: Wie der Euro-Rettungstopf funktioniert', *Frankfurter Allgemeine Zeitung*, 11 May 2010; A. Crawford, T. Czuczka, *Angela Merkel: A Chancellorship forged in Crisis*, Chichester: Bloomberg Press, 2013, pp. 59ff.

initiatives or a discernible Franco-German leadership role. Instead, the rescue deals for Greece came into effect without any noticeable Franco-German coordination. No earlier than late summer and early fall of 2010 could a change in style and a move towards closer bilateral coordination be discerned, which then laid the groundwork for Franco-German leadership during the final part of Merkel's and Sarkozy's common period in office.

Only for this period, lasting from September 2010 until April 2012, the now infamous term 'Merkozy', symbolising an intimate relationship of both national leaders, is in fact suitable.[12] The mechanism by which close bilateral coordination was resumed during the summer and autumn of 2010 is critical to understanding how Franco-German cooperation works: While Chancellor Merkel still insisted on automatic sanctions as a core element of a revised Stability and Growth Pact (SGP) in July 2010 and President Sarkozy rejected this measure on the grounds that it would further erode national sovereignty, both leaders avoided a continuation of their public dispute about future adaptation for the European Monetary Union.

At a bilateral summit at the French Atlantic resort of Deauville in October 2010, Sarkozy and Merkel reached a compromise: After a 'summer of hope' for the rescue of Greece, they unanimously (1) declared their will to launch the necessary instruments for a revised SGP with stricter rules but without automatic sanctions, (2) presented the next steps for a permanent ESM, and (3) demanded sufficient participation of private investors in the rescue of Greece and other heavily indebted countries ('private haircut').[13]

The problem with this surprising 'honeymoon' – or, rather, revival – of the Franco-German couple, pictured walking intimately against the backdrop of a magnificent sunset, was the so-called 'hegemonic style' of Paris and Berlin and the surprising content of their agreement.[14] Although both provoked broad resistance from other Member States and the European Central Bank at first, Deauville was the birth of Merkel's and Sarkozy's successful leadership during the euro crisis. It was the starting point for intensive bilateral initiatives to reform the architecture of the Stability and Growth Pact (SGP) as well as the budgetary rules leading directly to the signing of the Fiscal Compact in spring 2012 to reinforce strict budgetary discipline inside the EU. The French President obviously had been convinced now to follow the German

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[12] W. Hilz, 'Getriebewechsel im europäischen Motor – von "Merkozy" zu "Merkollande"?', *Aus Politik und Zeitgeschichte*, B 1–3/2013, pp. 23–29; U. Guérot, Th. Klau, *After Merkozy: How France and Germany can make Europe work*, London 2012 (ECFR Policy Brief 56/2012).

[13] 'Le projet de durcir la discipline budgétaire provoque des remous dans l'UE', *Le Monde*, 28 October 2010; L. Phillips, 'Battle over treaty change divides Europe ahead of summit', *Euobserver*, 28 October 2010, http://euobserver.com/9/31148.

[14] A. Mody, 'The Ghost of Deauville', *VOX CEPR's Policy Portal*, 7 January 2014 (http://www.voxeu.org/article/ghost-deauville); W. E. Paterson, 'The Reluctant Hegemon? Germany Moves Centre Stage in the European Union', *Journal of Common Market Studies*, 2011, Vol. 49, pp. 57–75.

stability course for France's own sake as well as to regain influence in the EMU by cooperating closely with the German Chancellor.[15]

The result of this complicated way back to close Franco-German bilateral cooperation was of a dual nature: With the temporary EFSF and the permanent ESM, Merkel and Sarkozy successfully forged a course for the EU to stabilise the euro zone that consisted of extensive fiscal support to suffering EU members by the new funds and heading for stricter budgetary rules at the same time.

The undisputed advantage of the new funds was that the EU members with weak economies and high debts did not have to pay high interest rates for fresh loans. They benefited from the low interest rates that, for example, Germany, the Netherlands or Finland had to pay (in part as a consequence of the perception of growing risks on the periphery). But due to the far-reaching financial needs of the crisis countries – from Greece, Ireland, and Portugal to Spain, Cyprus, and potentially Italy – the allocation of funds was tied to strict conditions. The governments of recipient countries had to – and still must – demonstrate that they have taken the steps considered necessary for long-term spending cuts and deficit reduction. Although this seems quite obvious, since the eurozone was constructed without a compulsory economic union and as a consequence all members agreed to include the no-bail out clause in the EU treaty (Art. 125), the conditionality of the new funds became a source of fundamental disputes inside the eurozone: Starting in Greece, the press and public in many crisis countries chose to target Germany as a welcome scapegoat,[16] although Chancellor Merkel and President Sarkozy had both been responsible for this course.

On the one hand, these disputes about allegedly ruthless German calls for austerity – often described as a return to familiar patterns of Teutonic taskmaster behaviour – were surprising, since the conditions of the currency project had been quite clear for all since Maastricht. On the other hand, although those basic elements of the EMU are undisputed, neither the Franco-German couple nor the Merkel government seemed willing to deliver a positive European perspective after a limited period of painful austerity.[17] While French President Sarkozy fought for his political survival and lost his bid for re-election in the spring of 2012, Chancellor Merkel did not manage to send signs of 'solidarity' or a relief perspective to crisis countries with their obviously suffering people.

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15 'Brussels Summit: EU Agrees to Merkel's Controversial Euro Reforms', *Spiegel Online International*, 29 October 2010, http://www.spiegel.de/international/europe/brussels-summit-eu-agrees-to-merkel-s-controversial-euro-reforms-a-726103.html; Ph. Ricard, 'La zone euro veut inventer un mécanisme capable de rapprocher les politiques économiques des Etats', *Le Monde*, 24 December 2010.

16 R. G. Picard (ed.), *The Euro Crisis in the Media: Journalistic Coverage of Economic Crisis and European Institutions*, London/New York: I. B. Tauris, 2015.

17 D. Schwarzer, 'Germany and the euro area crisis', *The New Palgrave Dictionary of Economics*, Online Edition 2014 (www.dictionaryofeconomics.com); H. Kundnani, *The Paradox of German Power*, London: Hurst Publishers, 2014, pp. 90ff.

As a consequence, the resumption of Franco-German leadership inside the EU was the source of a fundamental split inside the Euro zone,[18] between a German-led group of Northern 'rule addicts' and a Southern group of fiscal 'flexibles'.

## 5. Retarded bilateral leadership under Merkel and Hollande since 2012

The lessons of the Franco-German disputes during the first years of the euro crisis between 2010 and 2012 became important when the socialist François Hollande was elected French president in May 2012. While the German economy had recovered surprisingly fast in 2010/11, France – as Germany's traditional economic partner – became weaker and weaker. In economic terms, France still had severe structural problems to solve in order to regain economic dynamism. This was the reason for President Sarkozy to praise the German economy as a role model for France during the 2012 election campaign. After his defeat, his successor Hollande tried to regain economic power by choosing the opposite direction and aligning himself with the group of fiscal 'flexibles' in the eurozone: The new government tried to establish a truly socialist program which reminded its partners of Mitterrand's socialist illusions 30 years before.[19]

Starting from such diverging economic premises, the German Chancellor and the new French President now behaved like independent powers in political terms, trying to counterbalance their former partners with new allies or just bullying each other with economic pressure. The heated dispute about 'Eurobonds' became the symbol of the new Franco-German disunity.[20] The result was a harmful stagnation of the European Union in a critical situation. François Hollande tried to realise his socialist economic program as a counterforce against the established course of austerity with large scale social spending, while Angela Merkel defended her course as being 'without alternative'.

Yet, just as a French-led group of southern Europeans was unable to commit all other EU members to a course of deficit spending and eliminating the basic compromise of a stable monetary union, German leadership in the EU and the Eurogroup – exercised at times via a small group of Northern economies – was not acceptable politically since suspicions of German dominance and hegemony would likely have blocked the Community.[21] It thus took one and a half years for both Paris and Berlin to admit that

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[18] For a more theoretical discussion of consequences see: K. Tuori, K. Tuori, *The Eurozone Crisis. A Constitutional Crisis*, Cambridge/New York: Cambridge University Press, 2014.

[19] A. Eveno, '7,2 milliards d'impôts supplémentaires en 2012', *Le Monde*, 4 July 2012; A. Chrisafis, 'François Hollande keeps election promise of raising taxes for wealthiest', *The Guardian*, 6 July 2012, http://www.theguardian.com/world/2012/jul/06/francois-hollande-election-taxes-france.

[20] 'German "Nein" on Eurobonds', *The American Interest*, 23 May 2012, http://www.the-american-interest.com/2012/05/23/german-nein-on-eurobonds/; B. Clift, M. Ryner, 'Joined at the hip, but pulling apart? France-German relations, the Eurozone crisis and the politics of austerity', *French Politics*, 2014, Vol. 12, No. 2, pp. 136–163.

[21] C. Volkery, D. Hollande, 'Bremserin Merkel', *Spiegel-Online*, 19 October 2012, www.spiegel.de/wirtschaft/soziales/a-862152.html; S. Bulmer, 'Germany and the Eurozone Crisis: Between Hegemony and Domestic Politics', *West European Politics*, 2014, Vol. 37, No. 6, pp. 1244–1263.

their refusal to coordinate their policies damaged their ability to play a leading role inside a dynamic EU, which remained the best foundation for their own political and economic well-being. To regain their traditional role as bilateral engine inside the community, both Merkel and Hollande had to change their stance towards each other (and each other's policy preferences).

In 2014, the conditions for such a modification and the chances to seize the 'make or break moment'[22] became better as Chancellor Merkel now led her 3rd government, in which the Social Democrats, allies of Hollande's Socialists on the European level, had replaced the Liberals as her coalition partners. As a consequence, the German stance at the European level became somewhat more lenient. In France, President Hollande had to admit at about the same time that his idealistic socialist course for the French economy and society was in need of a fundamental correction – towards German-style structural reforms and more fiscal discipline. Prime Minister Manuel Valls took the first concrete steps in this direction in 2014 with a new economic and budgetary program that committed France to the principles of the SGP and the Maastricht criteria for the first time since the outbreak of the financial crisis.[23]

As a result of these Franco-German reorientations, each largely due to domestic factors and facilitated by the positive effects of ECB President Mario Draghi's signal to defend the common currency against speculation ('whatever it takes') and the start of the European banking union as an additional rescue instrument for the financial sector in the EU, closer coordination of national preferences at the bilateral level once again became possible during 2014.[24]

Against this background, the Greek debt crisis resurged in January 2015, when Prime Minister Tsipras and Minister of Finance Varoufakis tried – in vain – to drive a wedge between Paris and Berlin with their attempt to revive the southern coalition against austerity.[25] Hollande and Valls resisted the Greek attempt to support a 'cheap and easy' socialist solution to the domestic economic problems of Athens against the so-called Northern coalition of Germans, Finns, Dutch and Slovaks. Instead, Merkel and Hollande, assisted by their Finance Ministers Schäuble and Sapin, paved the way for a compromise inside the Eurogroup to avoid a Greek default and the so-called Grexit. Following the dramatic showdown at the eurozone summit of 12/13 July 2015 in Brussels, it was reported that Merkel and Hollande – playing different roles – managed to forge a compromise, which Greek Prime Minister Tsipras reluctantly accepted to

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[22] R. Kahn, Ch. Kupchan, 'Europe's Make or Break Moment', *Survival*, 2013, Vol. 55, No. 6, pp. 29–48.

[23] 'Le Hollande nouveau', *The Economist*, 18 January 2014, http://www.economist.com/news/europe/21594253-frances-president-struggles-focus-attention-his-new-economic-policy-not-women-his.

[24] E. Jones, 'The Euro crisis: No Plan B', *Survival*, 2013, Vol. 55, No. 3, pp. 81–94.

[25] 'Griechenland und die Euro-Gruppe: Wie Varoufakis' Brief die Krise verschärft', *Süddeutsche Zeitung*, 19 February 2015; 'The euro's next crisis', *The Economist*, 3 January 2015, http://www.economist.com/news/leaders/21637334-why-early-election-spells-big-dangers-greeceand-euro-euros-next-crisis; F.-J. Meiers, 'The Stress Test of German Leadership', *Survival*, 2015, Vol. 57, No. 2, pp. 47–55.

avoid a chaotic exit of his country from the euro.[26] Although the German position, due to the country's economic prowess, was obviously the stronger one within the Franco-German couple, the government in Berlin carefully avoided unilateral steps. Whether just to avoid appearances of unilateralism or in an honest attempt to cooperate with their partners in Paris, Merkel and Schäuble consistently presented every new initiative together with Hollande and Sapin.

This means that, after years of open controversies about the right course in times of the euro crisis, the Franco-German couple was back on the bilateral track for Europe's sake. Although it remains an open question whether the bilateral attempts of the first six months of 2015 and the arrangement fixed on July 13 will be sufficient to solve the current Greek crisis and avoid the breakup of the euro, the revived Franco-German axis – barely – survived its first major reality test under Merkel and Hollande.

The 'rélance' was also evident in the security sphere: Other than in Libya, Germany and France used the most serious security challenge in Europe since the Cold War to strengthen Franco-German cooperation. The trilateral French–German–Polish mediation mission to Kiev in February 2014 as well as Merkel's and Hollande's attempt to limit Russia's escalatory efforts in the eastern part of Ukraine with the 'Minsk II agreement' of February 2015 signalled the bilateral attempt of Paris and Berlin to broaden bilateral cooperation for Europe's sake and the national interests of both.[27]

Although the success of these Franco-German Ukraine initiatives is as uncertain as that of the deal with Greece, the will and ability of both traditional partners in the EU to orchestrate diplomatic progress remain remarkable. They are noticeable also for the fact that Chancellor Merkel did not attempt a German security initiative and there was no objection from other EU members. And they are exceptional since Germany and France did not start with the same aims and positions. In both cases, the German position was the more determined one. Although, in economic terms, there was no doubt about a dominant German position inside the EU, the Merkel government did not hesitate to work closely with Hollande and its government until the final agreement. This is a reversal of the former distribution of power in this bilateral relationship, where France publicly dominated all bilateral initiatives until the early 1990s – although even inside the 'old' European community German economic power and monetary stability superseded that of France by far.

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[26] M. Wiegel, 'Griechenland-Krise: Ein deutsch-französisches Zerwürfnis? Quatsch!', *faz.net*, 13 July 2015, www.faz.net/-gq5-85n8h; B. Bonnefous, N. Chapuis, 'L'accord qui éclaire le 14-Juillet de Hollande', *Le Monde*, 14 July 2015; 'WSJ's Interview with Jeroen Dijeselbloem', *The Wall Street Journal*, 16 July 2015, http://blogs.wsj.com/brussels/2015/07/16/wsjs-interview-with-jeroen-dijsselbloem-the-full-transcript/tab/print/?mg=blogs-wsj&url=http%253A%252F%252Fblogs.wsj.com%252Fbrussels%252F2015%252F07%252F16%252Fwsjs-interview-with-jeroen-dijsselbloem-the-full-transcript%252Ftab%252Fprint.

[27] 'Die Woche der Angela Merkel – 20.000 Kilometer und kaum Schlaf', *Frankfurter Allgemeine Zeitung*, 12 February 2015; For future perspectives in EU foreign and security policy see: R. Youngs, *The Uncertain Legacy of Crisis: European Foreign Policy Faces the Future*, Washington D.C.: Carnegie Endowment for International Peace 2014.

## 6. Conclusion

These examples show that fruitful initiatives for the community generally depend on confident and close cooperation between Berlin and Paris. That sounds very simple, and indeed it is quite simple since close Franco-German cooperation has always been the recipe for successful action inside the EU. But, although necessary, this condition is not sufficient for the Franco-German couple to successfully play its leadership role in the EU. For their common success, both governments have to find ways to overcome their traditional divergences in economic terms. That was – as a second result of the so-called 'Merkozy' phase between 2010 and 2012 – the consequence Merkel and Sarkozy had obviously drawn from their uncoordinated behaviour during the initial phase of the economic crisis in 2008 and in the winter of 2009/10. The mechanism of fruitful bilateral cooperation only works if the compromise forged between Berlin and Paris respects the vital interests of the economically stronger northern members of the EU as well as those of the European South. Although, substantively, German stability orientation, demanding strict austerity measures from all other EU members, is entirely consistent with the Maastricht provisions, it does not help the weak economies of the South. Since the German economy is again the powerhouse of Europe (not least due to the benefits it derives from the monetary union – a devalued currency and deflated interest rates), the persistently recessive economies of the eurozone rely – mainly – on German support. But without a resumption of economic growth in its major export markets – and especially in France – German companies and the German economy will suffer as well.

This means that bilateral leadership still has to respect the economic imbalances which are a continuing characteristic of the EU. As a consequence, German governments have to be more flexible than their rules-based orientation and rhetoric seem to indicate. At the same time, French governments need to convince and pressure their trade unions and the leftist socialist camp to accept the economic realities of globalisation. Coping with both domestic efforts, French and Germans on the basis of a declared will to forge compromises still have a chance – and responsibility – to play a positive leadership role in the economic area of the EU.

For more than 60 years, the recipe of success for the progress of European integration has been the institutionalisation and reduction of contingent personal influence on the development of the continent. Yet, positive and negative Franco-German performances since the outbreak of the economic crisis in 2008 demonstrate the continuing importance of 'core partners' for a positive dynamic within the EU. No EU institution or representative (President of the Commission or the European Council) had the power to substitute or circumvent the axis between Paris and Berlin in times of crisis, and no alternative group of Member States ever demonstrated the will and ability to do so. The highly bureaucratic and increasingly elaborate institutional structure of the EU is still no source of strong European leadership – this will continue to rest within the Member States.

As a consequence, in times of continuing crises in Europe's neighbourhood – and its dramatic consequences for the asylum systems in the EU – the regained Franco-German ability to overcome national preferences has to be widened towards closer bilateral cooperation of foreign and security policies, which has long been the domain of the – even more conflictive – Franco-British relationship. The joint initiatives in Ukraine (Kiev 2014, Minsk 2015) indicate that the governments in Paris and Berlin are willing and able to overcome hurdles outside the economic sphere for Europe's sake as well – Franco-German leadership for Europe still needs to be widened, since alternatives are not in sight.