2011

Has the Franco-German Power Balance in the European Union Tipped in Favor of Germany?

Stephanie C. Haffner
Claremont McKenna College

CLAREMONT McKENNA COLLEGE

HAS THE FRANCO-GERMAN POWER BALANCE IN THE EUROPEAN UNION TIPPED IN FAVOR OF GERMANY?

SUBMITTED TO

PROFESSOR ANDREWS

AND

PROFESSOR KANG

AND

DEAN GREGORY HESS

BY

STEPHANIE C. HAFFNER

FOR

SENIOR THESIS

SPRING 2011

APRIL 25TH, 2011

TABLE OF CONTENTS

INTRODUCTION

i: A Research Puzzle and Argument

The power balance between France and Germany in the European Union has been one of great discussion and debate. Countless journalists have argued that Germany's power has risen gradually against the seemingly perpetually stronger France over the past 60 years, and is now finally set to surpass France; but how true are these claims? How can power within the EU truly be measured? It is a combination of political and social factors, but overwhelmingly, economic factors, in which Germany has consistently excelled.

My main argument is that the power balance between France and Germany has remained relatively stable since the beginning of unionization negotiations. I argue that the notion that Germany's power in the European Union has recently surpassed that of France is false. Journals such as *The Economist* and *The Wall Street Journal* have claimed that France and Germany have become too dissimilar to maintain the strong relationship they once held, emphasized mostly by their economic differences, which has led to a breakdown of the Franco-German relationship. *The Economist* calls the Franco-German axis a "myth of an equal partnership," but history and EU budget analysis say otherwise. As I will show in my paper, Germany has continually been the largest source of economic power in the European Union, and has perpetually been the stronger economic and political power in the Franco-German relationship. This clarification is important to understand because it emphasizes the continuing importance of Germany in the Franco-German relationship, as well as the implications for an economically strong

Germany in the European Union. Germany's economic influence coupled with France's political influence has made for an important and effective leadership in the EU where cooperation and competition provide the most encompassing results of European policy-making.

My paper consists of three main chapters. The first chapter entitled, "Germany's Relative Bargaining Power," will explore German power relative to French power throughout the course of unionization discussions, through the creation of the European Monetary Union, the Stability and Growth Pact, and the creation of the shared currency. My second chapter, "The Discourse on the Franco-German Relationship," will examine the contemporary discourse on the Franco-German power balance and relationship in scholarly magazines, articles, newspapers, as well as in interviews with European bureaucrats. This chapter focuses on opinions regarding Germany's changing political behavior, France and Germany in the aftermath of the economic crisis, and Germany's diverging interests. My third chapter, "Demonstrating Germany's Relative Power through an Examination of the EU Budget" will look at the changing composition of contributors and recipients of EU Budget funds since the creation of the euro, with special emphasis on German and French contributions, and end with an analysis of the bail-outs and financial redistributions since the European debt crisis.

ii: A Background of the Franco-German Relationship

The Franco-German relationship has served as the anchor of European integration since the creation of the European Union in 1958.[1] In the past fifty years, France and Germany have built a strong partnership based on association, mutual goals, and friendship, but this did not come before a prolonged period of struggle. The 1963 post-war Franco-German Treaty of Cooperation concluded formally the long-standing conflict between France and Germany, which included twenty-three wars. Also known as the Treaty of Friendship, it set an official seal on reconciliation and continuing cooperation between France and Germany, calling for consultations between the two countries on all important questions and efforts, and implementing regular summits.[2] Despite this formal pact of cooperation, uncertainty arrived following German integration, as both countries were forced to adjust to a different power balance caused by the unification of Germany as well as the Soviet Union's collapse. Before German reunification, when Germany was divided and weak and France was fully involved in the political and economic western world, France was very much the dominant political partner of the two. After 1990 however, Germany regained much of its power and sovereignty, essentially catching up to France, and transforming into a power to be reckoned with, strategically advantaged being in the center of Europe.

---

[1] The European Union was originally created as the European Coal and Steel Community in 1951, which later led to the European Economic Community (1958). It officially developed its name as the European Union in 1993. Maclean, Mairi, and Jean-Marc Trouille. *France, Germany, and Britain: Partners in a Changing World*. Houndmills, Basingstoke: New York, 2001. Print.

[2] Brueggemann, Aminia M. *Rhine Crossings France and Germany in Love and War*. Albany: State Univ. of New York, 2005. Print.

One of the main differences that France and Germany needed to reconcile was their differing governing strategies within the European Union. France and Germany had different structures and institutions which made cooperation difficult. France was a centralized state, similar to the likes of the UK and Spain, while Germany was not, which made administrative issues challenging.[3] Germany preferred to launch joint initiatives, which took particular importance leading up to the Intergovernmental Conferences. The success of joint cooperation on initiatives and policy leading up to the IGCs attests to the strength of the bond and desire for progress between Germany and France. The shared will to cooperate and create results between the two countries showed that political will was an essential factor in giving momentum to European Monetary Union policy, which triumphed over separate policy interests. Negotiations created a shared commitment to reach success void of blame or argument so that the EMU would emerge successfully along a smooth path of dialogue and compromise. Throughout all levels of cooperation, France and Germany remained cognizant of the domestic situation and needs of the other country.

The creation of the EMU permanently altered the parameters of the Franco-German relationship, establishing France and Germany in the center of EU cooperation amongst the other member states. Though the relationship between the two states was still tenuous, it was strengthened by a newfound confidence founded in economic and monetary cooperation. Despite the fact that the First and Second World Wars had been based upon French and German antagonism, this past antagonism matched the drive with

---

[3] Mazzucelli, Colette. *France and Germany at Maastricht: Politics and Negotiations to Create the European Union*. New York: Garland Publ., 1997. Print.

which the Franco-German motor progressed through European unification. This adjustment of the Franco-German relationship set the tone for the formation of the European Union. It proved that if France and Germany were able to put aside their differences for mutual political and economic progress, their fellow member states could achieve the same goal with even less effort. The collaboration, in effect was more important to the creation of the EMU rather than the actual functioning of the EMU, as it set the tone for the rest of its passage. The eurozone's economic nature made cooperation even more vital as it forced economic alliance before social association. Europe's unification on the basis of Franco-German reconciliation on an economic foundation reinforced France and Germany's political bond in addition to its bond throughout social and defense policies.

The power of the Franco-German relationship was one that was unparalleled to any previous European partnership. The relationship's power was derived primarily from its economic capacity. In 1996, together France and Germany accounted for 56.48% of the eurozone's GDP, 57.5% of fixed capital formation, 57.7% of private consumption, and 45.7% of exports.[4] Their weight was also accounted for by the role of their currencies through bonds, notes, and market instruments. 59% of total bonds issued in 1996 were held by France and Germany, who provided 53.7% of the EU monetary base circulation. They also held a shareholding of 49.2% to the central bank, and contributed 39.5% to its reserves.[5] France and Germany roughly owned or dictated 50% of the European Union, which reinforced the notion that the two countries were the "core" or the "axis" of the

---

[4] See Note 1: Maclean & Trouille
[5] See Note 1: Maclean & Trouille

European Union. It also reinforced the sense of duty that it was the joint responsibility of France and Germany to bring stability and growth to the euro and to the eurozone. The eurozone acted as a motor for accelerating Franco-German cooperation upon its foundation in the Elysée contact in economic policy, most notably in economic policy through financial reforms within the Union in terms of exchange rate policies, employment and growth policies. Financial reforms urged cooperation over dissent, strengthening the Franco-German relationship slowly but consistently through the years, and creating a new institutional context outside of the political direction of its national parties. At the same time, loyalty between France and Germany continued to grow, as it proved to be the strongest strategy to ensuring joint political success, despite possible costs to social democratic ideology.

The economic and political collaboration between France and Germany in addition to their sheer comparative economic power over the rest of the EU member states ensured them a position of leadership in the Union. Moreover, other EU member states were pleased to see the positive result of Franco-German cooperation as confirmation that they too could converge their views in order to progress politically as a union. France and Germany were seen as the main bodies with the necessity to converge, especially in terms of the differing economist and monetarist approaches to the monetary union[6], and differing views concerning economic government and central bank independence (which have continued into today).

---

[6] The economist and monetarist debates considered of a difference in opinion wherein monetarists believed that the fixing of exchange rates and the adoption of a common currency would ensure sufficient convergence of the economies wanting to join the Union. Economists, on the other hand, believed that the adoption of a single currency should be the end of a lengthy process of convergence for those countries

Despite their challenging joint history with over twenty conflicts, France and Germany have become natural allies in building the European Union, creating the closest and strongest relationship in existence between any two nations. Facing a large number of differences and obstacles, the convergence between France and Germany since the early 1950s through differing economic philosophies, policies and practices has sustained. This joint leadership has led to a most critical relationship where France and Germany's separate strengths and weaknesses have elevated the relationship to a level matching the greatest strengths of each country. Germany's economic vigor combined with France's social emphasis has led to the creation of a Europe representative of the desires and emphases of all of its citizens.

iii: The Current Relationship

"Caught in an intense relationship between love and hate, France and Germany have engaged in a dialectic marked both by aggression and mistrust, on the one hand, and a mutual fascination and respect on the other."[7]

Today, France and Germany are not just partners in European integration, but also competitors on political and economic terms.[8] Not only are France and Germany the two largest member states, but their relative power position has increased because they represented the two prevalent different views in the EU on economic and monetary

---

wanting to join the Union, and believed that the rigorous conditions possible should be set for the creation of a common currency. (Eg. Maastricht criteria and Stability & Growth Pact)

[7] See Note 2: Bruggemann
[8] See Note Maclean & Trouille

union.[9] Germany and France dominate the negotiations and determine the crucial features of policy outcomes among themselves to the extent that the Franco-German exchange can be seen as a subset of the multiparty negotiations among the other states.[10] By reducing the number of players in the negotiations to just two, Franco-German negotiations decrease transaction costs, which in turn increase the probability of compromise.[11] From an intergovernamentalist point of view, the member states arrange themselves in two factions, siding with either Germany or France to build coalitions.[12] This synergy between France and Germany coupled with the shared desire to seek compromise is one which, despite times of conflict, always manages to yield desirable results. Today, the relationship between Germany and France is one of both cooperation and competition. The two countries have altered their production focuses over the years: in 1945, France was dominated by agriculture, but in recent years France has become the leading supplier of advanced technologies in air, space and energy, partnering often with Germany to create great technological progress (though merger issues regarding control of new ventures and the role of the state remain sensitive).[13] Through this important symmetry, neither country depicts its neighbor as an enemy, but as a neighbor with a shared desire to increase growth and productivity.

---

[9] Heipertz, Martin, and Amy C. Verdun. *Ruling Europe the Politics of the Stability and Growth Pact*. Cambridge: Cambridge UP, 2010. Print.
[10] See Note 9: Heipertz & Verdun
[11] See Note 9: Heipertz & Verdun
[12] See Note 9: Heipertz & Verdun
[13] See Note 2: Bruggemann

CHAPTER 1: GERMANY'S RELATIVE BARGAINING POWER

Recent literature has shown that journalists believe Germany to be on the road to overtaking France in terms of relative power in the leadership of the EU, but is this a valid claim? In this section, I will present examples of Germany's consistent economic strength relative to France in order to showcase that Germany has been a stronger power than France since the creation of the European Union.

Despite the high levels of economic convergence and interdependence between France and Germany, there remain economic disparities between the two countries. Over the past 60 years, Germany has consistently held a higher economic, financial and monetary weight in the European Union, maintaining the fact that the two countries are the fourth and fifth largest economic powers in the world, and the first two in Europe. Economically, Germany has constantly been strong. In 1995, German GDP represented approximately one third of combined EU output. Germany has been the key policy initiator and agenda-setter for a wide range of issues, including launching the European Monetary System in 1979.[14] It has also contributed greatly to the institutional architecture of the Union, including, but not limited to the strengthening of common macroeconomic, social, and environmental policies, as well as introducing concepts such as subsidiarity and multitiered governance to encourage the power of government from the bottom-up rather than the top-down to produce results that cater to each region's needs. Germany's power and influence throughout the creation of the EMU was derived through its successful use of government diplomacy in addition to its policy credentials, reputation,

[14] Mattli, Walter. *The Logic of Regional Integration: Europe and beyond*. New York: Cambridge UP, 1999. Print.

actions, as well as the power politics played by private actors, traders in foreign exchanges, and its successful investment patterns. Germany's ability to derive its demands successfully through negotiation and cooperation created a very noticeable tilt in the balance between Franco-German powers where more German desires were met than French ones.

1.1: The Franco-Germany Relationship through the Creation of the European Monetary Union and the Stability and Growth Pact

The strength of the Franco-German relationship was vital to the foundation of the European Monetary Union. Without either of the two countries, the EMU could not have been created. Similar to past EU situations regarding Franco-German compromise, the outcome of the negotiations resulted in lying closer to German demands rather than those of France due to the relative political and economic leverage that Germany held over France. At the same time however, it was important that Germany compromise in order to acquiesce to its fellow member states, especially France, for example in dropping its insistence on fully automatic sanctions.[15] The endeavor involved much risk for both France and Germany. Germany risked losing the monetary stability they had so carefully rebuilt after spiraling inflation in the 1930s, and France risked possible economic dominance by the Germans if they were not adamant enough in their requests.[16] For France, the difficulty lay in the fact that Germany had to be persuaded to relinquish both the deutschmark and the Bundesbank's control over monetary policy to Europe, and this

[15] See Note 9: Heipertz & Verdun
[16] See Note 1: Maclean & Trouille

meant that the EMU would have to be created on Germany's terms, with substantial concessions by France.

The political will showcased by both countries through the creation of the EMU proved the ability of the Franco-German motor to achieve great progress for not only the political integration of Europe, but the economic integration of Europe. The drive from both countries to succeed gave substantial direction and momentum to the convergence of economic interests in EMU policy. From the start of the negotiations, both France and Germany were driven by a sense of moral obligation to successfully launch the EMU. Convergence around sustainable non-inflationary growth was the key to making the EMU agreement possible, and the ECB-centric nature of the euro kept Germany as the dominant hand in EMU policy. The ability of France and Germany to work well together was more important in the creation of the EMU rather than in its functioning as it was a momentous example of cooperation and joint commitment between two unlikely allies to show EU member states, as well as the international realm, that the creation of a eurozone was not only a possibility, but a reality.

Although the prior examples may show that Germany held relative power over France in the EU, there are other examples to suggest that France certainly exerted political influence to counter its power balance with Germany. One of the most distinct examples is Germany's failure to use adequate political power to achieve more of its desires through the designing of the Stability and Growth Pact - an agreement between the seventeen eurozone members to facilitate and maintain the stability of the EMU: consisting of fiscal monitoring by members, the European Commission, the Council of

Ministers, and warnings and sanctions against offending members. Germany agreed to not have full automaticity in the SGP, which demonstrated a substantial concession.[17] The legal nature of the SGP lay out the loss of bargaining power Germany experienced after Maastricht. Throughout this process of decision-making, France was seen as having relative bargaining power over Germany, and was therefore able to realize its preferences more effectively. Additionally, French policy briefs controlled the political direction and monetary policy through the issues of political accountability and legitimacy in the SGP.[18]

Evidently, France and Germany were the two most important and powerful countries in the creation of the SGP. Given its history with the powerful deutschemark and notoriously strict Bundesbank, the German government was motivated to create the SGP to insure against its increasingly EMU-skeptic populous. Though Germany initiated the original idea of the Stability and Growth Pact, the inclusion of France throughout all of the major decision-making created a natural two-headed leadership, with France and Germany lying on either side of the spectrum. The other member states fell into place behind whichever of the two ideologies suited them: be it the monetarily conservative and strong Germany, or the harmonization and cooperation-desiring France; and France and Germany became their spokespeople.[19] Even today, the Commission has great difficulty defending the SGP against the national interests of Germany or France. Germany was certainly in the position to call for a strict SGP, but similar to its stance in the creation of other important EU institutions and programs, it had to be willing to

[17] See Note 9: Heipertz & Verdun
[18] See Note 1: Maclean & Trouille
[19] See Note 9: Heipertz & Verdun

negotiate a compromise with its ideologically differing fellow member states. The joint cooperation of France and Germany throughout the creation of the SGP contributed greatly to the strengthening of the conflict-solving capacity of the two countries as a team as the bilateral leaders of the European Union.

1.2: France and Germany in the Monetary Unification Process

Throughout the process of monetary unification, not only was Germany the most powerful country in the European Union, but it relinquished more sovereignty than any other state throughout the unification process. This renunciation of sovereignty allowed Germany the power to set many of the economic conditions through the creation of the EMU, and impose its views on the other member states. These views included setting the provisions for the Maastricht criteria, which dictates that a country's inflation remain less than 1.5% below the EU average, their government deficit not exceed 3%, their public debt remain below 60%, and their long-term interest rates remain below 2% higher than those in the EU's lowest rates.[20] Other member states, including France, felt substantially more pressure to "pass the EMU exam" than Germany, which put them in a weaker bargaining position in EMU matters. Germany's position as the unique hegemon of the European Union, thanks in much part to its highly acknowledged and prestigious Bundesbank, put Germany into place as the anchor of the European Exchange-Rate Mechanism (ERM)[21], with the deutschemark as the currency the euro would be modeled

[20] "Maastricht Criteria." *Euroveeb*. 28 Mar. 2011. Web. <http://euro.eesti.ee/EU/Prod/Euroveeb/Main_Page/left_menu/The_history_of_the_euro/maastricht.jsp>.
[21] The European Exchange-Rate Mechanism (ERM) was a system introduced in 1979 to reduce exchange rate variability and achieve monetary stability in Europe in preparation for the EMU and the euro.

after.[22] Due to Germany's economic success, the Bundesbank was widely accepted as the model for the statute of the ECB. Furthermore, because Germany entered the EMU with the most powerful economy, the Maastricht criteria were set as a way to attempt to match the other European economies to the status of Germany.[23] The majority of citizens in European member states agreed that the "EMU and the SGP are oriented along the lines of the German model."[24] Although Germany was in a position to demand a strict Stability & Growth Pact, it had to be willing to negotiate a compromise that would include concessions as well in order to please its fellow member states.

As Germany's resources have grown in the past two decades, so have their diplomatic resources, which have led to Germany's major influence on the structure of the EU. Simon Blumer and William Paterson write that this influence is a "…potential source of longer-term empowerment within the EU. The more the FRG secures the modeling of EU institutions in its own image, the better it will be placed on the grounds of familiarity to use them to its own ends."[25] Blumer and Paterson also write about the effectiveness of indirect, or soft power by Germany in influencing the other member states in the EU. This was achieved through the member states' desire to emulate Germany in order to reach political success and/or economic growth through adopting Germany's pattern of economic intuitions at the EU level. But is the German growth strategy sustainable for other eurozone countries as well as for France?

---

[22] See Note 1: Maclean & Trouille
[23] See Note 9: Heipertz & Verdun
[24] See Note 9: Heipertz & Verdun
[25] Blumer, Simon, and William E. Paterson. "Germany in the European Union: Gentle Giant or Emergent Leader?" *Royal Institute of International Affairs* 72.1 (1996).

The outcome of the EMU negotiations, for reasons of power politics, lay closer to German desires over those of France, or of any other member state. Moreover, alterations to EMU or SGP conditions depended on the wishes of Germany. If Germany was not pleased with a condition, it was likely that the condition would be changed to suit them. Although Germany certainly acted as the leading hand through the creation of the EMU, their leadership was essentially a way for France, and the other European member states to ensure Germany's participation in the European Union for both political and economic advantages.[26] In order to appease Germany, France made tremendous efforts to convert to the rigorous German model, adopting budgetary discipline and monetary orthodoxy. The countless French efforts to invigorate their economy did not evenly match the concessions that Germany made through any of the EMU negotiations, offsetting the balance of EU leadership.[27]

1.3: The Strength of the German Economy

The economic power balance between France and Germany has never been completely equally balanced. A total Franco-German equilibrium would be difficult and unrealistic to implement. The true power balance between France and Germany has almost always been unequal, especially regarding the fact that the weight of German businesses in terms of size, financial power, and turnover is about three times higher than the weight of French companies. Germany's GDP is roughly 24% larger than that of

---

[26] See Note 1: Maclean & Trouille
[27] See Note 1: Maclean & Trouille

France: $3.31 trillion in 2010 compared to France's $2.55 trillion.[28] In 2010, France represented 10.2% of German trade, whilst Germany represented over 19% of France's total trade, showing that trade-wise, France is far more dependent on Germany than Germany is upon France. In the past few years, France has in fact increased the trade deficit margin between itself and Germany. In 1998, France represented 11% of German trade, whilst Germany represented 18% of France's total trade.[29] Additionally, external sales of interior goods in the eurozone in the mid 1990s rose in Germany, and decreased in France. This growing disparity between the French and German economies have French elites constantly worried that they could fall further and further behind Germany, overshadowed by the economic and financial weight of the Germans. Moreover, in terms of social and infrastructural progress, Germany is currently more focused on deregulation and cost cutting than France, which is currently focusing on issues such as regional development, infrastructure, and knowledge transfer, which are policies which have largely already been implemented in Germany.

Within the European Union, the German economy is conclusively the strongest. It represents 25% of the Community's GDP, and contributes roughly 25% to the EU's external and internal trade.[30] The German economy is also the most productive, and has continued this level of productivity throughout the growth of the European Union and the monetary union. Economic growth rates for Germany have consistently been above the European Union average, and German unemployment rates have remained below the EU

---

[28] "France." *CIA World Factbook*. CIA, 6 Apr. 2011. <https://www.cia.gov/library/publications/the-world-factbook/geos/fr.html>. "Germany." *CIA World Factbook*. CIA, 6 Apr. 2011. <https://www.cia.gov/library/publications/the-world-factbook/geos/gm.html>.
[29] See Note 1: Maclean & Trouille
[30] See Note 14: Mattli

average as well. In analyzing the previous data, can it be said that Germany has taken over as the new leader of the EU? Although Germany suffered from inflation and economic problems in the early 1990s immediately following German reunification, it recovered remarkably well, and rose above all adversity to its current position as the most powerful economy in the European Union.[31] German unification absorbed political and financial shocks, and there remains a strong commitment to multilateral diplomacy and European integration within the German agenda, despite the fact that Germany has continued to be largest financial contributor to the European Union over the course of the growth of the Union. One of Germany's greatest concerns is that its wealth will be exploited by other EU member states in order to support other member states' weaker economies, especially given the recent eastward enlargement, but this will be explored further in a later chapter.[32]

The shaping of EU institutional arrangement may favor German interests more directly than those of other member states, which could give rise to distributional concerns, but Germany depends economically on its European partners as much as they depend upon Germany. Therefore, any policy that improves stability and security in European trade and investment suits Germany as well.[33] Moreover, German leadership has been largely docile rather than imposing, as it is far more beneficial to build concessions to reach a consensus rather than falter in dissent. For this reason, Germany stressed the importance of the depoliticisation of monetary policy in order to maintain economic stability among all member states. Depoliticisation of monetary policy not only

[31] See Note 25: Blumer & Paterson
[32] See Note 25: Blumer & Paterson
[33] See Note 14: Mattli

created unobstructed access to the prosperous single European market, but enabled the German economy to expand through increased mergers and acquisitions, as well as through increased imports and exports.

To summarize, throughout the course of the growth of the European Union, the Franco-German relationship has been at the core of German European policy, where integration between the two leaders; firstly Helmut Kohl and Francois Mitterrand, and now Nicholas Sarkozy and Angela Merkel has been the center of European cooperation. Although collaboration between France and Germany remained the main axis of the EU, Germany's surrender of the deutschemark in favor of the euro, the strongest currency in Europe, placed them in a position of de-facto leadership, which has continued into the political and economic negotiations of the European Union today.

CHAPTER 2: THE DISCOURSE ON THE CURRENT FRANCO-GERMAN RELATIONSHIP

The growth and power balance of Franco-German relations since the start of the European Union has continually been a source of great interest to journalists, students of European affairs, and policymakers alike. Despite instances of tension and potential crisis, France and Germany have maintained a close relationship since 1960. Bilateral regularized intergovernamentalism has held the Franco-German relationship together sturdily after a history of constant conflict. Both countries have acknowledged the importance of their relationship in Europe: Former French President Valery Giscard d'Eistaing expressed his view that "Europe cannot move ahead without the Franco-German engine,"[34] President Sarkozy called Franco-German cooperation within NATO "a great element of the Franco-German friendship," and Chancellor Merkel expressed her "delight" over further Franco-German cooperation in the future.[35] Though Sarkozy has been known to under-appreciate and underestimate the Franco-German axis, and President Sarkozy and Chancellor Merkel's relationship has not always been so cordial, the two leaders have still managed to agree upon common positions ahead of big EU summits.

In the past few months, however, positive reviews of the Franco-German relationship have taken a turn for the south. Articles published since the European debt

---

[34] Walker, Marcus, and David Gauthier-Villars. "Europe's 'Opposite Twins' Clash Over Future - WSJ.com." *The Wall Street Journal - Wsj.com.* 2 July 2010. Web. <http://online.wsj.com/article/SB10001424052748704853404575323142895146902.html>.
[35] McNicoll, Tracy. "Economic Crisis Brings Sarkozy and Merkel Closer - Newsweek.. 21 Mar. 2009. Web. <http://www.newsweek.com/2009/03/20/how-the-crisis-is-reviving-the-old-french-german-axis.html>.

crisis have called European cooperation "more indecisive and more divided than ever before,"[36] and the reviews of the Franco-German relationship are no better. *The Economist* calls the Franco-German axis a "myth" and stated in its January article, "France loses Ground to Germany," that "the myth of an equal partnership lends France an exaggerated stature and protects Germany from accusations of outright unilateralism."[37] *The Wall Street Journal* claims that France and Germany have reached far more instances of disagreement rather than cooperation, stating that France and Germany "have clashed recently on bailouts for Greece, the independence of the European Central Bank, and what shape a new "economic government for Europe proposed by France should take."[38] The European Institute claims that France and Germany have "long ago lost that loving feeling" that united them and fueled their success in the past. They claim that this has "died out" and Europe can no longer function on the same axis as before. The two nations, they claim, have become too dissimilar to maintain a "relationship" mainly because of their different economic statures.[39]

Though it is true that France and Germany do not always agree, I argue that this is nothing new, and has not fundamentally changed the nature or the balance of the Franco-

---

[36] Jouyet, Jean-Pierre. "Europe: La Crise De La Cinquantaine...et Comment En Sortir (Europe: The Crisis of the Half-Century...and How to Get Out of It)." Interview by Maryam Salehi-Bremond. *Politique Internationale*. Mar.-Apr. 2010. Web. <http://www.politiqueinternationale.com/revue/read2.php?id_revue=127&id=904&search=&content=texte>.

[37] "France Loses Ground to Germany: Power Shift | The Economist." *The Economist - World News, Politics, Economics, Business & Finance*. 9 Dec. 2010. Web. <http://www.economist.com/node/17675940>.

[38] See Note 34: *WSJ* Opposite Twins

[39] Janes, Jackson. "The French-German Dialogue I: Berlin Wants A New Narrative Based On Europe's Future, Not Its Past | August -- September 2010." *European Institute*. Aug.-Sept. 2010. Web. <http://www.europeaninstitute.org/August-September-2010/the-french-german-dialogue-i-berlin-wants-a-new-narrative-based-on-europes-future-not-its-past.html>.

German axis. Although France and Germany may disagree upon certain ways that the EU is governed, they have made very well on their promise to present a united front, especially in the case of the financial fallout, consistently issuing joint statements and positions, as was the case with their proposal for the future of economic governance in Europe, and in further examples that I present below.

2.1: Germany's Lead

"It is not true that Germany imposes its initiatives. The relationship has changed, but only in the sense that it's no longer a matter of the heart but of interests as well. People say that Europe is run by Merkel and Sarkozy but, in this relationship, the woman is stronger than the man."[40] - Laurent Wauquiez, French Europe minister

It is certain that there are differences between France and Germany, and these differences are mainly dictated by economic power, but is this economic power difference a shift, or simply a difference? As I argue in my paper, Germany has always been the economically stronger member state, but this is no new information: it is being highly sensationalized by the press as a new development since the European financial crisis.

The Economist states, in fact, that France's economy recovered more quickly from the recent economic recession with a GDP shrinkage of only 2.6% in 2009, over Germany's shrinkage of 4.7% "…sustaining the illusion that everything was fine."[41] This was no illusion. France's economy emerged quickly out of the recession because of a

---

[40] See Note 37: *Economist* Power Shift
[41] See Note 37: *Economist* Power Shift

strong, centralized government, quick-acting government economic stimulation, and a strong welfare system which maintained domestic demand. The following year, German GDP did grow faster than French GDP, but will this remain a pattern? *The Economist* explains this as an effect of "reaping the benefits of years of wage moderation and labor-market reforms that improved its competitiveness."[42] Germany's economy certainly hasn't suffered from the economic crisis to the extent that the other EU member states have. The weakness of the euro over the past two years has increased the strength of Germany relative to its neighbors. In 2010, the Germany economy grew by 3.7%, and unemployment continued to fall. Thomas Petersen, a pollster, claimed that "The average German never even noticed the crisis."[43] Moreover, while France attempts to reach a budget deficit of 3% in 2013, Germany is attempting to achieve a budget deficit of 0% in 2014.

The creation of the euro was ironically aimed to keep Germany in check, and bind it more tightly to Europe. This was largely a French led idea to monitor the growth of the newly reunited Germany, and when the euro was first introduced, it encouraged the quick growth of all the European member states but Germany. It has led instead to a situation where Germany has emerged as the state with the strongest version of the euro.[44] The euro helped to make German economies the most competitive in Europe, without the ability of France and Italy to decrease competition by a simple devaluation of their currencies, as they had done in the past.

---

[42] See Note 37: *Economist* Power Shift
[43] Theil, Stefan. "A Weak Euro Gives Germany More Power - Newsweek." *Newsweek*. 23 Jan. 2011. Web. <http://www.newsweek.com/2011/01/23/to-rule-the-euro-zone.html>.
[44] See Note 43: *Newsweek* Weak Euro

2.2: Does France have Reason to Panic?

One of the other noticeable components of contemporary literature on the Franco-German relationship following the financial crisis was an overwhelming feeling of panic from the French side over their realization of the impending German domination. The most common example tended to be the verifiable fact that France is attempting to align its tax structure with Germany's to achieve more fiscal responsibility and stability; though this shows less panic than admiration for the strict German tax structure. The main argument presented in the existing literature is that France is panicking due to its competitiveness with Germany. President Sarkozy was recorded as stating, "I cannot accept a deficit in competitiveness with our main economic partner, Germany. I want to lay the ground for a relatively homogenous fiscal zone."[45] France will have to work on new ways to maintain their political and economic influence in Europe alongside Germany.

The Economist article, "France Loses Ground to Germany," states that the French budget deficit is expected to be over 6% of GDP in 2011, while Germany's will be under 3%. They even go so far as to label France "closer to Greece than Germany."[46] In reality, France is making large efforts to keep their economy strong through an intense program of growth and austerity that Finance Minister Christine Lagarde calls "Rilance" (*rigeur et*

---

[45] "Taxes in France: Unsqueezing the Rich | The Economist." *The Economist - World News, Politics, Economics, Business & Finance*. 25 Nov. 2010. Web. <http://www.economist.com/node/17581764?story_id=E1_TSVRTSGQ>.
[46] See Note 37: *Economist* Power Shift

reliance).[47] The program aims to combine a policy of a tight budget, with expense cuts, tax loophole deductions, and reduced spending with a policy of increased employment, increased investment and increased innovation. France is committed to saving €100 billion over the next three years to reach the Stability and Growth Pact budget deficit level of 3% in order to not fall behind Germany.[48] What Lagarde has planned for France is essentially a plan of debt restructuring where the economy deflates through the use of fiscal policy measures in order to eliminate its debts through a slow and painful process in order to naturally regain economic growth.

2.3: Germany and France in the aftermath of the Economic Crisis

In negotiating post-2013 debt crisis management, *The Economist* states that "Mrs. Merkel got what she asked for, while Mr. Sarkozy has been stuck on the sidelines"[49] In reality, the European Financial Stability Facility (EFSF) and plans for its successor were very much decisions made jointly by the two countries. Wolfgang Schauble, Germany's Finance Minister, and Christine Lagarde sent a joint letter to the European Council President, Herman Van Rompuy, suggesting a way to create more EU-wide fiscal discipline by "barring an offending member state…from taking part in specific votes."[50] Christine Lagarde said in an interview supporting the remaining strength of the Franco-German axis, that, "The political sanction is something that was very much discussed between Chancellor Merkel and President Sarkozy, the re-enforcement of financial

---

[47] Lagarde, Christine. "Interview with French Minister for Economy, Industry and Employment." Interview by Paul Pennay and Zhang Feifei. *Economic Observer*. 6 Aug. 2010. Web. <http://www.eeo.com.cn/ens/feature/2010/08/06/177486.shtml>.
[48] See Note 47: Lagarde Interview
[49] See Note 37: *Economist* Power Shift
[50] See Note 39: European Institute

sanctions is something that Germany has long called for, and the idea of the interest-bearing deposit is something that we worked on together," although she also expresses that "Germany has always been very strong on the deficit-cutting, sanctions, discipline and control."[51]

Both France and Germany desire a new economic framework for Europe, but the two countries have different ideas in mind, which has hindered progress for developing such a framework. France would prefer to see the European Council turned into an economic government, without the creation of any new institutions, while Germany would rather replace the current rescue fund (the EFSF) with a program called the European Stability Mechanism.[52] Christine Lagarde also admits that there still exist disagreements between France and Germany. She says that Germany is very insistent on the European Central Bank being independent, but that the French wish for growth and jobs to also be incorporated into the ECB agenda. "On that front," Lagarde says, "there is a stronger German sensitivity than French."[53] Lagarde holds that France cares just as much about financial stability as Germany, and is willing to do what it takes to be considered as heavily as Germany when it comes to economic decisions for the European Union. At the same time, France has pride in its economic structure, and has no desire to become Germany's puppet. Lagarde claims, "Some of the German players probably think, well "are the French really serious about it?" Are they going to be really disciplined and solid in terms of cutting deficit and having a sustainable debt and will

---

[51] See Note 47: Lagarde Interview
[52] Muller, Peter, and Michael Sauga. "Competing Visions: France and Germany Split over Plans for European Economic Government - SPIEGEL ONLINE - News - International." *De Spiegel*. 1 Mar. 2011. Web. <http://www.spiegel.de/international/europe/0,1518,737423,00.html>.
[53] See Note 47: Lagarde Interview

they be prepared to…do what it takes?...we think, well, do we really want to be in the straight-jacket that Germany has imposed on its economy up until now?"[54] The delicate economic power balance between France and Germany has created a state of affairs with more concessions from the French side rather than the German side, and the control of monetary issues in Germany's hands. Moreover, France would prefer that the post-crisis mechanism be focused on the eurozone alone, while Germany wants all twenty-seven member states in the EU involved in policy-making decisions, as Chancellor Merkel believes that it is important for all member states to be as fiscally responsible as possible in order to create the strongest European Union.[55]

The true source of Germany's current economic power lies in the euro. Because the European Central Bank is in Frankfurt, and decisions regarding the euro have historically been based on the German model that created the successful deutschemark, "Europe is dancing to Germany's tune," says Charles Grant, the director of the Centre for European Reform, "Germany has the largest and strongest economy, the deepest pockets, and the most solid AAA credit rating of any major European economy."[56] This power places Germany in the position as the euro's de-facto capital. In addition to its economic differences, disagreements throughout the aftermath of the financial crisis placed additional pressure on the Franco-German relationship. Germany was criticized for acting too slowly after gaining knowledge of the difficult financial situation Greece, and

[54] See Note 47: Lagarde Interview
[55] See Note 39: European Institute
[56] See Note 43: *Newsweek* Weak Euro

President Sarkozy was recorded as having said, regarding Germany's response lag, "France is working on it; Germany is thinking about it."[57]

2.4: Germany's Diverging Interests

Politique Internationale, and other economic journals are claiming that Europe is not as important to Germany as it was in the 1990s.[58] Francois Heisbourg, an adviser at the Foundation for Strategic Research claims that "everybody in France agrees that Germany is becoming an ordinary country, where "the European interest" is no longer the default mode."[59] For many German leaders today, the Franco-German relationship and the EU have taken more of a backseat to Germany's policy interests, and are no longer as central as they were for the post-1945 generation to set Germany on a new course in Europe.[60] Wolfgang Schauble, one of the most pro-European figureheads in the 1990s, was one of the driving forces behind European integration. Now, reports claim he no longer feels the degree of solidarity that he once did with his fellow member states, failing to vouch for them in times of difficulty.[61]

One of the main reasons Germany agreed to join the European Union after WWII was its resulting guilt because of wartime events, and a desire to invest in collective European reconstruction. Now, both of these motivating factors are no longer relevant, and German economic interest seems to be declining as it becomes more concerned with becoming an international power than with helping Europe. Germany has also

---

[57] See Note 37: *Economist* Power Shift
[58] See Note 36: *Politique Internationale*: La Crise
[59] See Note 34: *WSJ* Opposite Twins
[60] See Note 39: European Institute
[61] See Note 36: *Politique Internationale*: La Crise

increasingly become interested in Asian growing markets, as well as Russia, which is seen more clearly through their activity in the energy sector.[62] Moreover, German taxpayers have griped about having to use their taxes to pay off the debts of other European member states. Merkel would prefer to demonstrate that German taxpayer money that is being used outside of Germany is being used to benefit Germany rather than to benefit others.

The Franco-German motor cannot function without the joint commitment of both parties. If France and Germany act together, Europe moves ahead, but if they cannot agree, or do not commit fully to the task at hand, Europe stalls. With Germany taking a front seat in European issues, and looking outside of Europe to new policy options, the Franco-German axis diminishes in both importance and effectiveness. The philosophical idea of the European Union asks that Germany commit fully to strengthening Europe before looking outwards. “Germany is so preeminently powerful now, economically and politically, that it’s changing the EU,” says the Centre for European Reform. “Germany has become much more assertive of its own interests.”[63]

To summarize, the current discourse places Germany in a newfound power-holding position in Europe over France. The discourse has emphasized the opposition between France and Germany, attempting to show that the two countries have been unable to compromise, and have emerged following Germany’s lead. Journals like *The Economist* have claimed that the nations are too dissimilar to maintain the strong “relationship” they once held, underlined mostly by their economic differences, which

---

[62] See Note 36 : *Politique Internationale*: La Crise
[63] See Note 43: Newsweek Weak Euro

has created an environment where Germany no longer needs France as it once did.[64] Moreover, the discourse has emphasized an unsavory relationship between President Sarkozy and Chancellor Merkel, labeling the two as "opposite twins" who suffer from a lack of trust.[65]

Though the two countries may have economic differences, this does not have to underscore the power of their political relationship. As my research has shown, Germany has always been the economically stronger of the pair, and the relationship has remained strong into the twenty-first century. To some extent, this has had to do with the fact that France had more political clout than Germany in the late 20th century due to their seat on the United Nations Security Council, their relationship with the United Kingdom and the United States, and their reputation in the world post-World War II. In the past few decades however, Germany has regained its positive political reputation with its success in the European Union both politically and economically, so this gradual shift may alter the future of the Franco-German relationship. Despite this change, it still takes French agreement to further legislation, meaning that France maintains the ability to act as an obstacle within the European Union.

[64] See Note 37: *Economist* Power Shift
[65] See Note 34: *WSJ* Opposite Twins

CHAPTER 3: DEMONSTRATING GERMANY'S RELATIVE POWER THROUGH AN EXAMINATION OF THE EU BUDGET

Budgets are of enormous importance to the evolution of the European Union both politically and economically, though it is very small relative to national budgets – representing only about 1% of the EU's GDP. The European Union budget has consistently been a topic of much discussion, in terms of where EU money comes from, how it is spent, and the processes by which it is distributed. Since the formation of the EU budget, Germany has been the largest net contributor to the EU budget, redistributing resources through programs such as the European Regional Development Fund, the European Social Fund and the Cohesion Fund.[66] Its net contribution to the EU budget increased from €5.37 billion in 1987 to €11.25 billion in 1992, and in 2007 was €7.42 billion.[67] For recent years, since the conversion to the euro, additional studies have been carried out to measure the relative contributions from each member state to the EU budget, and the results are interesting. They show that Germany's contribution, although the highest in numerical terms, does not remain so when compared per capita to the GDPs of the other member states as well, which makes for compelling debate regarding claims that Germany "carries the burden". This will be explored later in the chapter.

Politically, the EU budget is important because the money contributed represents a commitment of resources to public goods from a member state. Budgetary flows to member states are highly visible in that "winners" and "losers" can be easily calculated.

---

[66] See Note 14: Mattli
[67] European Commission. *EU Budget 2007 Financial Report.* European Union. 2007. <http://ec.europa.eu/budget/library/publications/fin_reports/fin_report_07_en.pdf>

The net budgetary balance of a member state is determined by the net cash flow received by the member state from the EU budget in that particular year. This includes cash inflows from the EU budget to the national budget, cash inflows received by final beneficiaries, and all cash outflows from the member state to the budget, based on TOR, VAT and GNI[68] contributions.[69] In 2003, the EU budget was equivalent to 2-4% of the combined national budgets of the member states, with its payments representing 1% of the Community gross national income. Though the budget may have little macroeconomic significance when applied to the European Union as a whole, it is extremely important for those member states receiving transfers from the budget's structural funds.

3.1: Germany and the Net Contributors of the EU Budget

Paying for unification in the early 1990s had a major influence on German citizens' attitudes to the EU budget, and Germans began to frequently voice their opinions about sharing the financial burden of the EU with their fellow member states.[70] The German Chancellor, Gerard Schroeder too, was determined to reduce Germany's high net contributions to the EU budget. Although German reunification significantly altered the German economy, with Germany's per capita income falling from second the sixth place amongst EU member states, it remained the biggest paymaster of the EU

---

[68] TOR contributions are Traditional Own Resources stemming from a country's agricultural duties, sugar levies, and customs duties. Value Added Taxes (VAT) contributions come in the form of a country's consumption tax, as a tax on the purchase price, and then a tax on the "value added" to a product by its stage of manufacture or distribution. GNI contributions are contributions based on a country's Gross National Income, and are the largest share of EU budget contributions.

[69] Wynn, Terry. *The EU Budget - Public Perception & Fact*. Terry Wynn, MEP. Chairman of the Committee on Budgets of the European Parliament. Web. <http://www.terrywynn.com/Budget/EU%20Budget%20-%20Perception%20&%20Fact.htm>.

[70] Wallace, Helen. *Policy Making in the European Union*. Oxford [u.a.: Oxford Univ., 2005. Print.

budget through all of its economic restructuring. In December of 2003, the six largest net contributors to the EU budget (Germany, Belgium, Denmark, France, the UK, and the Netherlands) expressed their concerns about the overall expenditure of the budget in a letter to the President of the European Commission. The letter included provisions requesting that the budget expenditure not exceed 1.2% of EU GNI, and that the conclusions of the Brussels European Council in October 2002 regarding agricultural subsidies until 2013 be respected.[71] The proposal sought to strike a balance between spending for new member states and the desires of the current net beneficiaries of cohesion policy. Current beneficiaries did not want to halt transfers of funds to their poorest regions, and threatened to demand compensation if their regions would lose funds due to the new transfer programs to newer member states. Net contributor states like Germany opposed such compensation, whereas beneficiary states such as Ireland, Spain and Portugal insisted on the need to maintain such support until 2014.[72]

For France, the permanence of the agricultural agreement from October 2002 was one of its top priorities in its negotiations towards the next financial perspective, while for the UK, the main concern was to keep the UK rebate intact to the fullest extent possible.[73] In the case of the United Kingdom, the rebate improved Great Britain's budgetary balance, as well as France's, which led to a tight balance between the national

[71] Mrak, Mojmir, and Vasja Rant. *Financial Perspective 2007-2013: Domination of National Interests*. *EU Budget: Working Paper 1*. EU Consent: Constructing Europe Network, July 2007. Web.
[72] See Note 69: Wynn
[73] See Note 71: Mrak & Rant

interests of France and the UK throughout negotiations towards the next financial perspective.[74]

Moreover, Germany and France, experiencing a low growth rate in 2002 and 2003, had failed to meet the terms of the Stability and Growth Pact- committing the members of the euro to comply with the Maastricht criteria- which further decreased their willingness to tolerate increases in the EU budget.[75] Given that regional expenditure is driven by strong interests, and agricultural expenditure was to be excluded from negotiations under the Franco-German agreement of 2002, proposed increases in research and development, and innovation and technology were likely to be rejected in order to comply with the desires of the net contributors who favored a budget of austerity. Overall, the net contributors were very resistant to endowing the Union with any significantly larger financial resources.

3.2: A Statistical Examination of Germany's and France's role in the EU Budget

Looking at the contributions of member states to the EU budget, it is important to clarify that individual net budgetary balances are negative in cases where the member state contributes more than it receives in return. This number is often listed as NBB (Net Budgetary Balance).

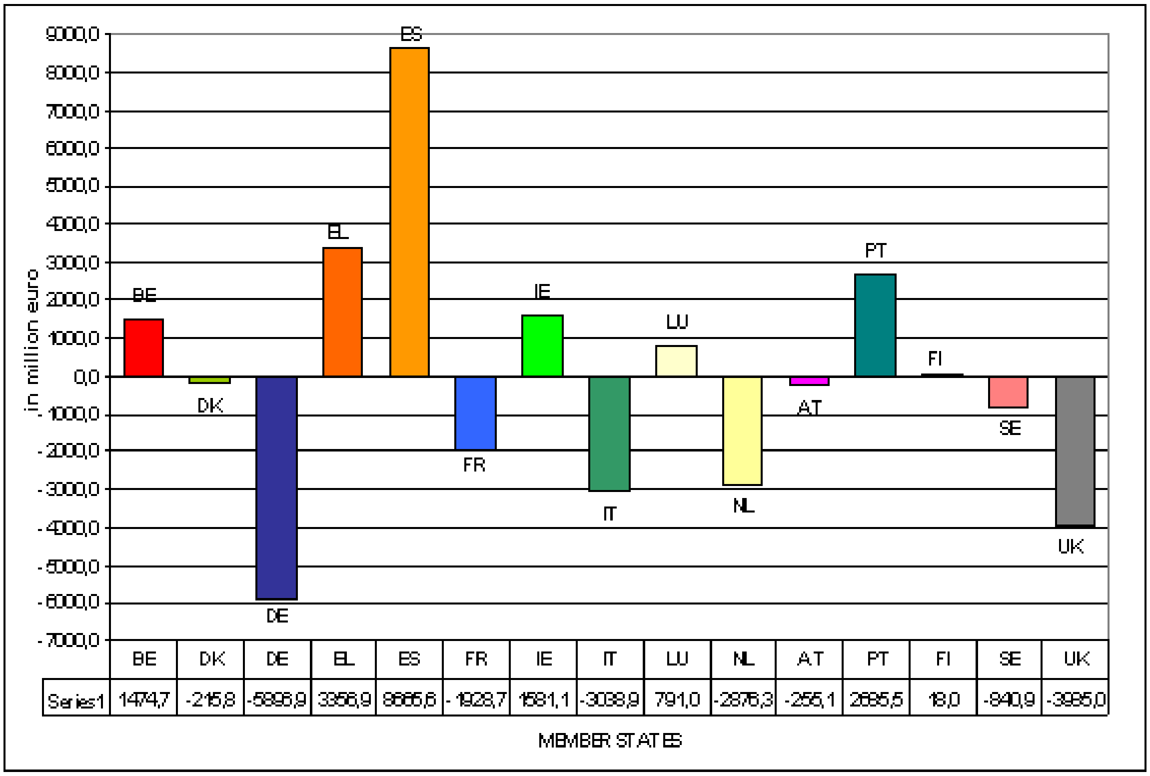
One of the most important aspects of this thesis is analyzing Germany and France's contributions to the EU budget, which I will do in part through the analysis of graphs created and published by Terry Wynn, Member of the European Parliament &

[74] See Note 71: Mrak & Rant
[75] See Note 70: Wallace

Chairman of the Committee on Budgets of the European Parliament, in his article, "The EU Budget – Public Perception & Fact", by Mojmir Mrak and Vasja Rant, "EU Consent, EU Budget Working Paper: Financial Perspective 2007-2013: Domination of National Interests," and by Helen Wallace in her book, "Policy-Making in the European Union."

My research revealed that one of the budget's most frequently published years was 2002, as it was the first year the euro was fully introduced into the eurozone. In the attached graphs and charts, Figure 1: "2002 EU Net Contributors and Recipients," shows Germany and the United Kingdom as the highest net contributors to the EU, with Italy and the Netherlands coming in 3rd and 4th place respectively, and France at a further behind 5th place. Germany led the member states with a net contribution of close to €6 billion and France only contributed a third of this value: €2 billion. Even if the graph is altered to calculate only real net balances, (minus traditional owned resources) Germany's and France's contributions do not change, nor do their order of contributions.

Figure 1: 2002 EU Net contributors and recipients (millions of euros)[76]

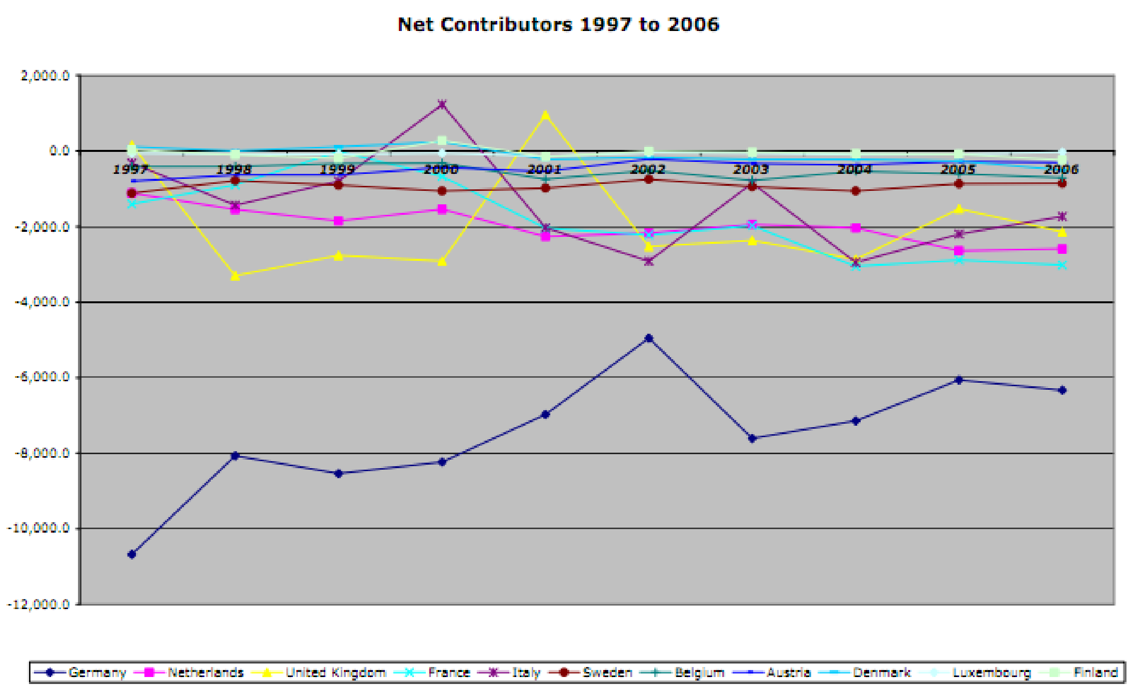


Giving a more general perspective of the breakdown of net contributions to the EU Budget in "Figure 2: Net Contributions 1997 to 2006" we see that Germany is clearly the largest net contributor throughout all ten years, with a net budgetary balance of €-11 billion towards the EU budget in 1997, and over €-6 billion in 2006. France on the other hand, held a net budgetary balance of close to €-1.7 billion in 1997, and €-3 billion in 2006. Moreover, the graph shows that the United Kingdom ended the 1990s contributing more money to the EU budget than France, but gradually began to contribute less and less while France began to contribute more and more. To judge these numbers more clearly in a numerical manner, as can be seen in "Figure 3: EU Budget Contributions 1999-2007,"

[76] See Note 69: Wynn

in 1999, Germany had a net budgetary balance of €-8.54 billion, and throughout the following 8 years, maintained an average net budgetary balance of €-7.03 billion. France on the other hand, contributed net €-15 million in 1999 (more than 500 times less than Germany), but swiftly and steadily increased its contribution until it reached a net budgetary balance of €-3.01 billion in 2007, now only a little under half of Germany's contribution.

Figure 2: EU Budget[77]



These are the net contributors. It is interesting to note that for the heaviest net contributor, Germany, the contributions have reduced over the last 10 years.

[77] European Union. EU Budget Review. The EU Budget Review 2008/2009. European Commission, 2008. Web. <http://quaker.org/qcea/briefings/Budget/Briefing%20Paper%202%20-%20the%20EU%20budget%20structure%20final.pdf>.

Figure 3: EU Budget Contributions 1999-2007[78]

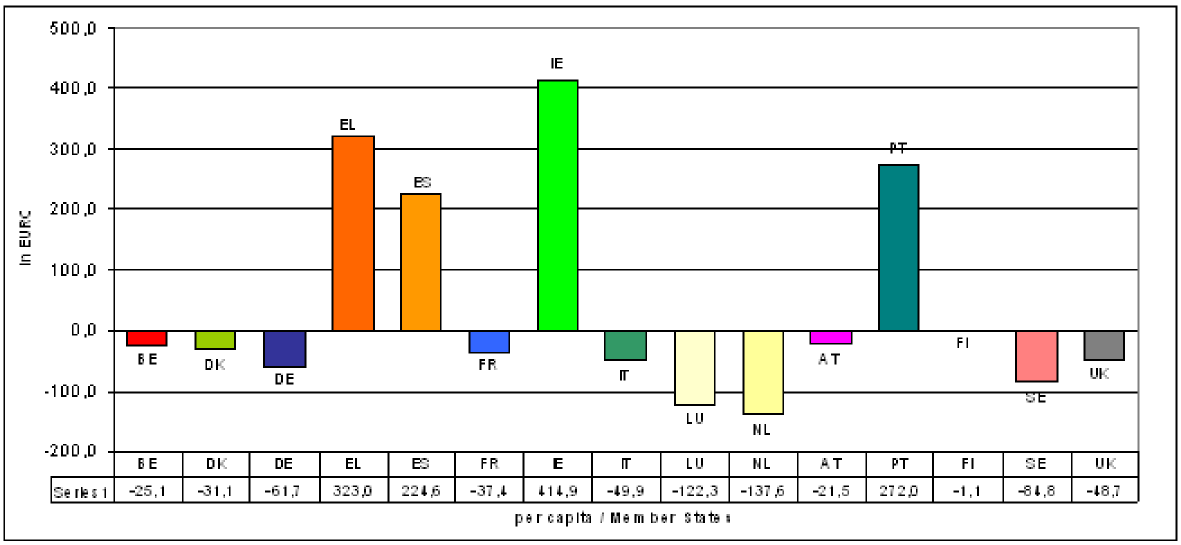
	1999	2000	2001	2002	2003	2004	2005	2006	2007
Belgium	-333,3	-323,2	-745,2	-517,7	-779,7	-536,1	-607,5	-709,9	-868,9
Czech Republic	-	-	-	-	-	272,2	178,0	386,2	656,4
Denmark	117,8	239,6	-223,1	-169,1	-220,0	-224,6	-265,3	-505,2	-609,4
Germany	-8.539,2	-8.232,4	-6.971,5	-4.954,0	-7.605,4	-7.140,4	-6.064,3	-6.325,2	-7.420,2
Estonia	-	-	-	-	-	145,0	154,3	176,4	226,2
Greece	3.813,6	4.380,6	4.503,6	3.375,7	3.358,3	4.163,3	3.900,5	5.102,3	5.436,4
Spain	7.364,4	5.263,6	7.661,2	8.859,4	8.704,9	8.502,3	6.017,8	3.811,7	3.649,5
France	-15,5	-676,6	-2.043,4	-2.218,4	-1.976,1	-3.050,7	-2.883,5	-3.012,5	-3.001,5
Ireland	1.976,0	1.719,5	1.198,3	1.574,1	1.559,0	1.593,8	1.136,6	1.080,5	671,8
Italy	-800,2	1.231,2	-2.030,9	-2.917,1	-849,8	-2.946,9	-2.199,0	-1.731,8	-2.016,8

One of the most interesting graphs I encountered was Figure 4: "Net Contributors and Recipients in 2002" and Figure 5: "Member States' Contributions in Relation to their Population," which gave a surprising result, showing that in fact, Luxembourg, Denmark, and Belgium are the three countries whose citizens pay most per capita towards the EU budget, at €460, €318.50 and €295.90 respectively as their yearly contribution per capita. Germany and France only paid €210 and €242.3 per capita respectively, with France actually carrying a heavier financial burden per capita than Germany towards the EU

[78] See Note 67: European Commission

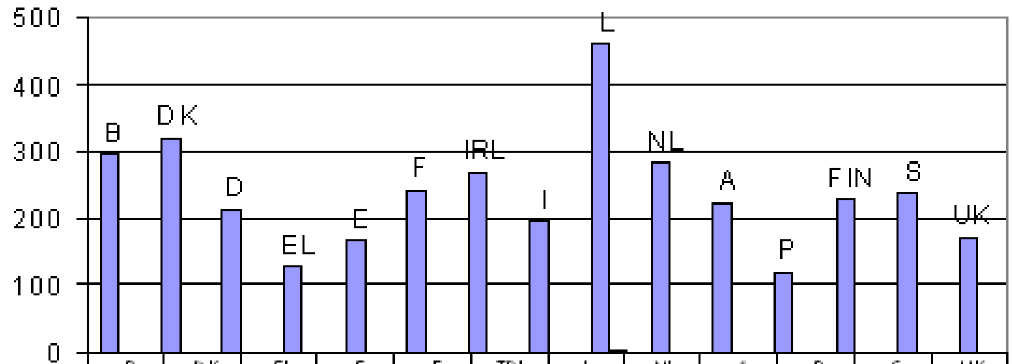
Budget.[79] On the other hand, Portugal, Greece, and Spain have the lowest per capita contributions to the EU budget, which is less surprising, as they are typically acknowledged as the eurozone's poorest countries. This data concerning Luxembourg, Denmark and Belgium is mostly due to the fact that countries with smaller populations are contributing more per capita than countries with larger populations.

Figure 4: Net Contributions and Recipients in 2002 (in euro per citizen)[80]



[79] See Note 69: Wynn
[80] See Note 69: Wynn

Figure 5: Member States' Contributions in Relation to their Population[81]



	B	DK	EL	E	F	IRL	L	NL	A	P	S	UK
per capita in EURO	295,9	318,5	127,4	165,8	242,3	268,2	460	280,9	223,3	119,9	237	170,4
per capita/day in EURO	0,811	0,873	0,349	0,454	0,664	0,735	1,26	0,77	0,612	0,328	0,649	0,467

Interestingly enough and best displayed in Figure 1, from 1997 to 2006, Germany has gradually *decreased* its contributions to the European Union, while France has gradually *increased* its own. Despite the reports that Germany has slowly been gaining both economic and political traction against France, the opposite seems to be true in terms of economic contributions.

This graph is most interesting as it decreases the previously assumed growing economic omnipotence of Germany within the European Union. It shows that Germany is not truly "carrying the burden" to the extent that those observing European Union politics believed, as Luxembourg, Denmark and Belgium are even more economically involved than Germany per capita. Does this mean they should increase their bargaining power relative to their economic engagement? Should Luxembourg, Denmark and Belgium have the ability to counter economic decisions made by Germany and France because

[81] See Note 69: Wynn

their citizens are paying more per capita into the EU than Germany and France's citizens are? The truth is that overall economic contributions are more important to a member state's political weight than are per capital economic contributions, because their presence in political and economic decision-making is simply larger than the presence of other rich member states with small populations. This power held by Germany enables it to be the leading voice in economic decisions because, although it may be paying a similar per-capita contribution to the EU Budget as Austria or Sweden, the sheer number of citizens paying that contribution within Germany's population translates to a higher collective bargaining power.

3.3: Bail-Outs & Financial Redistribution since the Debt Crisis

As I previously explored in my chapter on the current discourse of the Franco-German relationship, the recent economic crisis has put additional strain on France and Germany, especially Germany, to make decisions about European financial redistribution regarding the debt crises of the struggling member states. This new role adopted by Germany has not pleased all member states and Germany has been viewed as being determined to export its "culture of economic stability" to the entire euro area.[82] As stated by the European Council of Foreign Relations' Ulrike Guerot and Mark Leonard, "There has been a….'unipolar moment' within the eurozone: no solution to the crisis was possible without Germany, or against Germany."[83]

---

[82] See Note 37: E*conomist* Power Shift
[83] Wolf, Joerg. "Europe's Indispensable Nation." *Atlantic Review - Analysis of Transatlantic Relations and U.S. Foreign Policy*. 12 Apr. 2011. Web. <http://atlanticreview.org/archives/1468-Europes-Indispensable-Nation.html>.

The financial crisis has paved the way for countless meetings and negotiations between the leaders of the EU member states in order to solve the crisis. Debt-structuring seems to be the most likely scenario that will come into effect, as permanent fiscal transfers are highly unpopular among Europe's richer core, especially Germany. Semi-permanent fiscal transfers are more popular, in the form of euro bonds, but the richer member states are unlikely to accept large budget transfers in order to write-off the debts of poorer countries.[84] The main issue is that the most financially disciplined member states do not want to pay for the mistakes of the most reckless, as they do not feel obliged to do so. Therefore economic responses among the leaders of richer member states have been slow and often contradictory, creating resentment on both sides. Chancellor Merkel has spoken publicly with frequency on the matter, in an attempt to reassure German voters that Germany is not a "transfer union" in which taxpayers' money is given to the "sinners" on the periphery of the eurozone.[85] Germany has always been highly involved in European integration, and it is finding itself further ostracized by its fellow member states due to such austerity. Germany has even been blamed for having some fault in causing the crisis by publicly stating that insolvent countries may never be able to pay back all of their debts. If Germany, France, and the other wealthier member states are able to cooperate more effectively through the ability to represent *all* eurozone economies, and not isolate those in genuine need of help, they may be able to reach a popular consensus more quickly.

[84] "The Euro Area's Debt Crisis: Hopes Raised, Punches Pulled | The Economist." *The Economist*. 10 Feb. 2011. Web. <http://www.economist.com/node/18114793?story_id=18114793>.
[85] Peel, Quentin. "Germany: A Test of Strength." *Financial Times*. 11 Apr. 2011. Web. <http://www.ft.com/cms/s/0/12029500-6474-11e0-a69a-00144feab49a.html#axzz1JTC0FSWb>.

In an attempt to resolve issues surrounding the resolving of the debt crisis, Germany and France have put effort into creating an initiative known as the "Competitiveness Pact," or a "grand bargain" where weaker member states agree to overhaul their economies through a series of reforms in retirement and retirement ages, corporate taxes, and wage indexation in order to remain part of the eurozone.[86] Additionally, France and Germany have put forth a two-step objective in order to rescue those economies on the brink of collapse, such as Greece and Ireland, with temporary loans, and couple these efforts with increased economic rigueur to prevent future crises.[87] Germany and France have already contributed billions of dollars to bailing out their fellow member states: in May 2010, Germany contributed €22.4 billion to the bailout of Greece, while France contributed a commendable €16.8 billion to the effort, with the German press labeling the bailout, "the fattest check in [German] history."[88] As of April 7th, 2011, the total resources available for European bailouts totaled €864.8 billion, including the €440 billion of the European Financial Stability Facility, (of which the lending capacity is €250 billion) and €280 billion from the IMF (as illustrated in Figure 6 below) Of these funds, €110 billion have gone to Greece, €67.5 billion have gone to Ireland, and €80 billion have gone to Portugal. Germany has contributed over €100 billion to the EFSF, and France has contributed just under €100 billion.[89] Germany,

---

[86] See Note 84: *Economist* Euro Area Debt Crisis

[87] "Charlemagne: The Divisiveness Pact | The Economist." *The Economist - World News, Politics, Economics, Business & Finance*. 10 Mar. 2011. Web. <http://www.economist.com/node/18330371?story_id=18330371>.

[88] "BBC News - German Parliamentary Vote Backs Greece Bail-out Funding." *BBC News - Home*. 7 May 2010. Web. <http://news.bbc.co.uk/2/hi/europe/8666860.stm>.

[89] "European Bail-outs: Pay Pals | The Economist." *The Economist - World News, Politics, Economics, Business & Finance*. 7 Apr. 2011. Web. <http://www.economist.com/blogs/dailychart/2011/04/european_bail-outs>.

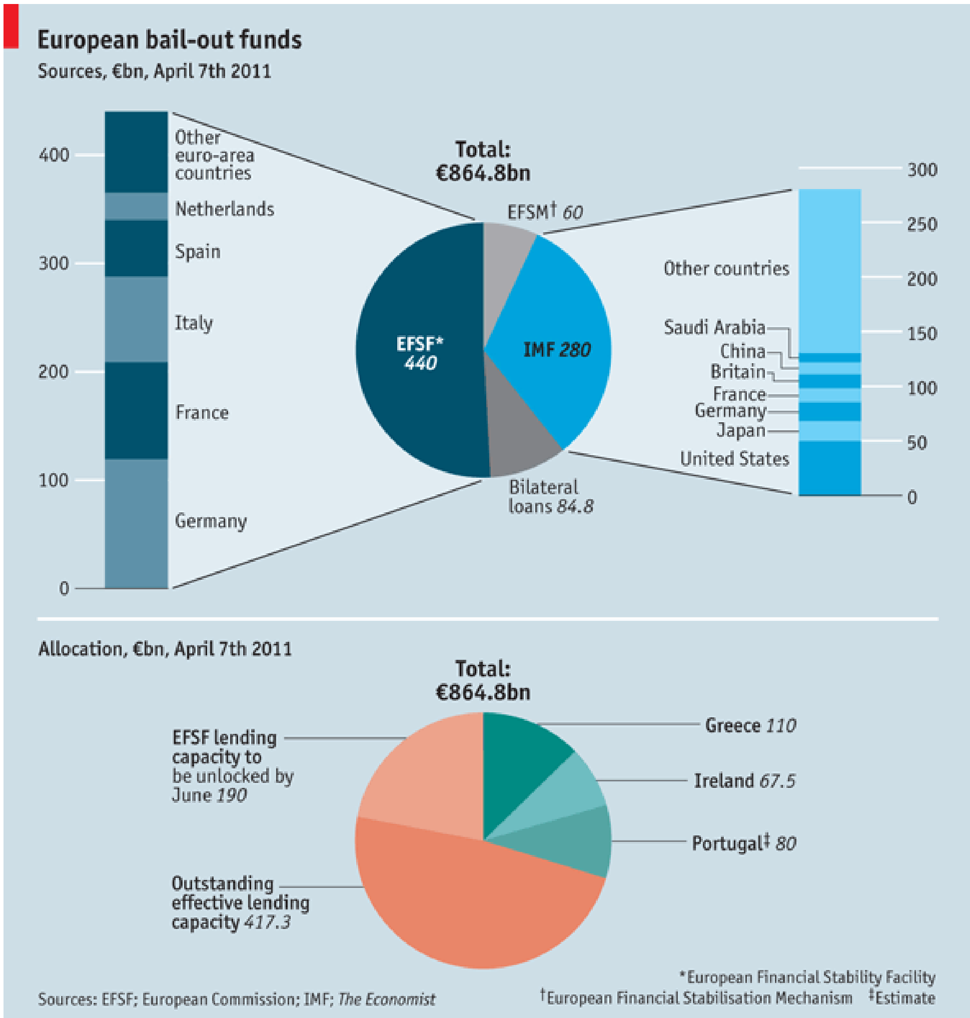
France, Italy and Spain alone are contributing 75% of the bailout funds.[90] The magnitude of such contributions from richer member states enable countries like France and Germany to make conclusive decisions regarding the future of European economic governance, and to decide to what extent funds can be transferred from richer to poorer member states, which is the main reason for such the slow decision-making process among the leadership of the EU.

In summary, Germany has been the largest net contributor to the EU Budget since its formation. Germany's role as "paymaster" has enabled it to be the leading voice in economic decisions, but has also made it reluctant to support fiscal transfers, especially in light of the European debt crisis, as it does not find itself responsible for the economic problems of its fellow member states. Interestingly enough, member states with smaller but richer populations, like Denmark, Luxembourg, and Belgium are contributing more per capita than Germany or France. In fact, Germany has decreased its contributions to the budget whilst France has increased its own. It will be very interesting to see how negotiations play out between these power players in solving the debt crisis and creating a stronger financial framework for the euro.

---

[90] Collins, Sarah. "Finance Ministers Commit 700 Bn Euro to Future Bailouts." *Europolitics*. 22 Mar. 2011. Web. <http://www.europolitics.info/finance-ministers-commit-700-bn-euro-to-future-bailouts-art299081-28.html>.

Figure 6: European Bail-Out Funds[91]



[91] See Note 90: *Economist* Bail-Outs

CONCLUSION

Based on my findings and analysis, I conclude that the current Franco-German power balance in the EU has not tipped in favor of Germany. The Franco-German power balance has never been truly equal, and is unlikely to reach absolute equality in the future. Germany has been the largest source of economic power in the European Union since its creation, and has remained the stronger economic and political power throughout the Union's growth. Although Germany's position in the European Coal and Steel Community and the European Economic Community was weak initially following World War II, its renunciation of much sovereignty allowed it the power to set many of the economic conditions within the European Union. This leadership continued through the creation of the EMU as it adopted the euro, leaving behind the strongest currency in Europe.

In regards to the Franco-German relationship, despite the relatively stronger German power, the Franco-German relationship has always remained within Germany's most important policy interests. Although the two countries may disagree upon certain methods with which the EU is governed, or should be governed in the future, they have consistently presented a united front, most notably in light of the financial crisis with their joint-proposal for economic governance in Europe. Both Chancellor Merkel and President Sarkozy remain committed to their role as partners in European Union leadership, and claims that the nations have become too dissimilar to retain their relationship are being proven incorrect as we enter the aftermath of the financial crisis.

Looking towards the future, it is important that France and Germany continue to commit wholeheartedly to reforming the financial framework of the eurozone. This may dictate a move closer to a federation and the dreaded “transfer union” status, but this is the commitment that the countries have made in joining the monetary union. Time will tell whether Europe’s richer countries decide to financially support their weaker member states, whether the weaker member states will devalue their way back to reality or whether they will endure a harsh period of debt restructuring.

What will be interesting is to see how Franco-German dynamics play out in the future. Will Germany pursue sole leadership of the EU or will it reduce its involvement? Will France succeed in its *rilance* austerity measures and emerge from the decade with an economy just as powerful as Germany’s? Either way, France has managed to remain as powerful a political voice as Germany, as evidenced by its continuing ability to convince Germany to make concessions (eg. Germany’s acceptance of greater coordination of economic policy) and it is likely that whatever decision Europe decides to take in reforming its monetary union, France and Germany will be at the forefront of negotiations.

BIBLIOGRAPHY

1. Blumer, Simon, and William E. Paterson. "Germany in the European Union: Gentle Giant or Emergent Leader?" *Royal Institute of International Affairs* 72.1 (1996).
2. Brueggemann, Aminia M. *Rhine Crossings France and Germany in Love and War*. Albany: State Univ. of New York, 2005. Print.
3. Collins, Sarah. "Finance Ministers Commit 700 Bn Euro to Future Bailouts." *Europolitics*. 22 Mar. 2011. Web. <http://www.europolitics.info/finance-ministers-commit-700-bn-euro-to-future-bailouts-art299081-28.html>.
4. Heipertz, Martin, and Amy C. Verdun. *Ruling Europe the Politics of the Stability and Growth Pact*. Cambridge: Cambridge UP, 2010. Print.
5. Janes, Jackson. "The French-German Dialogue I: Berlin Wants A New Narrative Based On Europe’s Future, Not Its Past | August -- September 2010." *European Institute*. Aug.-Sept. 2010. Web. <http://www.europeaninstitute.org/August-September-2010/the-french-german-dialogue-i-berlin-wants-a-new-narrative-based-on-europes-future-not-its-past.html>.
6. Jouyet, Jean-Pierre. "Europe: La Crise De La Cinquantaine...et Comment En Sortir (Europe: The Crisis of the Half-Century...and How to Get Out of It)." Interview by Maryam Salehi-Bremond. *Politique Internationale*. Mar.-Apr. 2010. Web. <http://www.politiqueinternationale.com/revue/read2.php?id_revue=127&id=904&search=&content=texte>.

7. Lagarde, Christine. "Interview with French Minister for Economy, Industry and Employment." Interview by Paul Pennay and Zhang Feifei. *Economic Observer*. 6 Aug. 2010. Web. <http://www.eeo.com.cn/ens/feature/2010/08/06/177486.shtml>.
8. Maclean, Mairi, and Jean-Marc Trouille. *France, Germany, and Britain: Partners in a Changing World*. Houndmills, Basingstoke: New York, 2001. Print.
9. Mattli, Walter. *The Logic of Regional Integration: Europe and beyond*. New York: Cambridge UP, 1999. Print.
10. Mazzucelli, Colette. *France and Germany at Maastricht: Politics and Negotiations to Create the European Union*. New York: Garland Publ., 1997. Print.
11. McNicoll, Tracy. "Economic Crisis Brings Sarkozy and Merkel Closer - Newsweek.. 21 Mar. 2009. Web. <http://www.newsweek.com/2009/03/20/how-the-crisis-is-reviving-the-old-french-german-axis.html>.
12. Mrak, Mojmir, and Vasja Rant. *Financial Perspective 2007-2013: Domination of National Interests*. *EU Budget: Working Paper 1*. EU Consent: Constructing Europe Network, July 2007. Web.
13. Muller, Peter, and Michael Sauga. "Competing Visions: France and Germany Split over Plans for European Economic Government - SPIEGEL ONLINE - News - International." *De Spiegel*. 1 Mar. 2011. Web. <http://www.spiegel.de/international/europe/0,1518,737423,00.html>.

14. Peel, Quentin. "Germany: A Test of Strength." *Financial Times*. 11 Apr. 2011. Web. <http://www.ft.com/cms/s/0/12029500-6474-11e0-a69a-00144feab49a.html#axzz1JTC0FSWb>.

15. Theil, Stefan. "A Weak Euro Gives Germany More Power - Newsweek." *Newsweek*. 23 Jan. 2011. Web. <http://www.newsweek.com/2011/01/23/to-rule-the-euro-zone.html>.

16. Walker, Marcus, and David Gauthier-Villars. "Europe's 'Opposite Twins' Clash Over Future - WSJ.com." *The Wall Street Journal - Wsj.com*. 2 July 2010. Web. <http://online.wsj.com/article/SB1000142405274870485340457532314289514602.html>.

17. Wallace, Helen. *Policy Making in the European Union*. Oxford [u.a.: Oxford Univ., 2005. Print.

18. Wolf, Joerg. "Europe's Indispensable Nation." *Atlantic Review - Analysis of Transatlantic Relations and U.S. Foreign Policy*. 12 Apr. 2011. Web. <http://atlanticreview.org/archives/1468-Europes-Indispensable-Nation.html>.

19. Wynn, Terry. *The EU Budget - Public Perception & Fact*. Terry Wynn, MEP. Chairman of the Committee on Budgets of the European Parliament. Web. <http://www.terrywynn.com/Budget/EU%20Budget%20-%20Perception%20&%20Fact.htm>.

20. "BBC News - German Parliamentary Vote Backs Greece Bail-out Funding." *BBC News - Home*. 7 May 2010. Web. <http://news.bbc.co.uk/2/hi/europe/8666860.stm>.

21. "Charlemagne: The Divisiveness Pact | The Economist." *The Economist - World News, Politics, Economics, Business & Finance*. 10 Mar. 2011. Web. <http://www.economist.com/node/18330371?story_id=18330371>.
22. "The Euro Area's Debt Crisis: Hopes Raised, Punches Pulled | The Economist." *The Economist*. 10 Feb. 2011. Web. <http://www.economist.com/node/18114793?story_id=18114793>.
23. "European Bail-outs: Pay Pals | The Economist." *The Economist - World News, Politics, Economics, Business & Finance*. 7 Apr. 2011. Web. <http://www.economist.com/blogs/dailychart/2011/04/european_bail-outs>.
24. European Union. EU Budget Review. The EU Budget Review 2008/2009. European Commission, 2008. Web. <http://quaker.org/qcea/briefings/Budget/Briefing%20Paper%202%20-%20the%20EU%20budget%20structure%20final.pdf>.
25. "France Loses Ground to Germany: Power Shift | The Economist." *The Economist - World News, Politics, Economics, Business & Finance*. 9 Dec. 2010. Web. <http://www.economist.com/node/17675940>.
26. "Taxes in France: Unsqueezing the Rich | The Economist." *The Economist - World News, Politics, Economics, Business & Finance*. 25 Nov. 2010. Web. <http://www.economist.com/node/17581764?story_id=E1_TSVRTSGQ>.