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Rebooting the Franco-German engine

Two post-election scenarios

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Among German parties, there is consensus that a more closely integrated defence force is an integral element of a better functioning European security architecture. As a result of Brexit, plans for joint European forces are losing an opponent, making progress in the field even more likely. Additionally, Trump's demands for more European military engagement mixed with the unpredictability of US-foreign policy under his administration raise aspirations of overcoming traditional patterns of security dependency. In France, the success of such an agenda is more likely to be challenged domestically than by Paris' European allies, as foreign and defence policy remain an integral element of sovereignty, symbolized by and culminating with France's permanent seat on the UN Security Council (prospectively, the only EU country to hold this privilege in the wake of Brexit).

To imagine a Franco-German quid-pro-quo between fiscal and foreign policy integration at this level is unimaginable at the present juncture. But at the time, it was also impossible to imagine the kind of log-rolling that made the historical agreement on the 1992 Maastricht Treaty and the single European currency possible: Germany agreeing to give up its beloved Deutsche Mark in return for France (and the UK) agreeing to German reunification after the end of the Cold War. The imagination and sacrifice necessary to revive the fortunes of the fading EU project require nothing less.

The two scenarios are rather stylized versions of a reality that in practice is likely to unfold in a way that takes in elements of both. But for the Danish government, any of these scenarios, or anything in between the two, is not devoid of challenges. Any nuance of the "business as usual" proposition will vindicate the euroskeptic critique of all political stripes, insofar as it will confirm the inherent limitation that the EU has displayed over the past half decade. In that light, the only cautionary tale against pushing Euroskepticism too far will be the uncertain and bumpy road that is likely to characterize Brexit negotiations.

Any scenario along the "Grand Bargain" lines will look equally uncomfortable for Denmark, albeit for opposite reasons. The long-standing government's position describing Denmark "as close to the [EU] core as possible" has disappeared in the governing platform of the present coalition government. In any variation of the Grand Bargain scenario, the "core" will take the shape of a stronger Franco-German motor on issues of fiscal and defence integration where Denmark has opt-outs. That will effectively sanction that today's "differentiated integration" will become less fluid and more rigidly organized in a multi-layered and multi-speed EU with its own institutions, and of which Denmark would likely constitute one of the outer layers.

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Cover photo: Ritzau, Denmark



REBOOTING THE FRANCO-GERMAN ENGINE

Two post-election scenarios

Rebooting the Franco-German locomotive of European integration is a key condition for reviving the fading EU project. Compromises will have to be made on fiscal and defence policies, and it is unclear whether the parties have the political capital necessary.

The election of pro-European Emmanuel Macron as president of France has reignited hopes that the so-called Franco-German engine, providing political impetus to European integration in the past decades, might be revived. While Macron's election proved a rebuke to the populist challenge, it remains to be seen whether and how it will manage to rebalance the partnership with Berlin, which is overwhelmingly premised on Germany's growing strength and clout at

RECOMMENDATIONS

- One scenario for the Franco-German engine would see President Macron lack support to further his ambitious EU agenda and the duo continuing to be characterized by German dominance.
- Another scenario would see Macron in a position to push Germany towards closer fiscal integration in return for France leading towards closer EU foreign and security policy integration.
- The Danish government should reckon that any rebooting of the French-German "engine" of deeper European integration will revolve around issues where Denmark has EU opt-outs.

the European level. While pronouncing herself supportive of the new course in Paris, Chancellor Angela Merkel, like the rest of Europe, remains in a wait-and-see position regarding the ability of President Macron to fulfil his ambitious pro-EU agenda.

Rebooting the Franco-German locomotive

During his campaign, Macron stated that the EU was dysfunctional and promised to start in-depth reforms of the European project once elected. In order to get France and Europe back on track, Macron has called for reforms within the Eurozone, most prominently the establishment of a Euro-zone finance minister, the introduction of a joint budget and a Eurozone parliament. Instability in the EU neighbourhood and uncertainty surrounding President Trump enable Macron to further the case for closer EU cooperation in foreign and security policy. Pointedly, Macron favours closer European defence integration, which he aims to take forward in order to complement NATO and to share costs for necessary expenditures.

With Germany emerging as the pre-eminent European power, Macron's success in this venture largely depends on the revival of the Franco-German

locomotive. But with Federal Elections in September, it is not yet clear which direction the Franco-German cooperation will take. Germany's eagerness to support Macron's reform ambitions hinge on the role of the Christian Democratic Union (CDU) and the Social Democratic Party (SPD) after the elections.

Both parties expressed their relief at Macron's election, and both parties are well aware of the need to overcome economic stagnation in France for the sake of the European project. In his election campaign, Macron took political risks defending Merkel's refugee policy, which he said defended Europe's "dignity". During Macron's first visit as President in Berlin in mid-May, Merkel stated that Europe could only progress with a strong France. The two leaders of the EU's largest economies agreed on a roadmap for future EU reforms without deciding on specific measures. German Minister of Finance Wolfgang Schäuble (CDU), the face of the German austerity approach to EU financial policy, also agreed to the need to strengthen the Eurozone. However, he has described EU treaty reforms as unrealistic, favouring the creation of a European monetary fund based on intergovernmental cooperation. Many of Macron's

plans would indeed require amendments to the Lisbon Treaty and therefore the approval of the 27 EU member states.

Moreover, some of Macron's proposed economic reform ideas have traditionally been rejected by the Merkel's Christian Democratic Union, and conservative politicians are finding it difficult to come to a consensus in the run-up to the federal elections. Members of the CDU have stressed that France should start solving its own problems before targeting large-scale EU reforms that Germany would have to pay for. To counter German fears of loss of control over spending, Macron has placed plans to restore France's economy upfront: "to restore the credibility of France in the eyes of the Germans," as he put it in March. His plans to pare down the state pension system and transform the labour market will most likely face severe domestic opposition and will depend on the outcome of French parliamentary elections in June. It is unlikely that Merkel will support concrete steps before the elections.

The SPD, on the other hand, will try to take advantage of Macron's victory. Four days after the election of Macron, Minister of Foreign Affairs Sigmar Gabriel (SPD) presented a paper in which he called for a stronger Franco-German cooperation on multiple levels. He praised Macron's courage to stand up for Europe in difficult times and stressed that Germany must become more open to his reform plans. Among other ideas for a renewal of the Franco-German locomotive and the strengthening of the Eurozone, he supports the establishment of a joint parliamentary controlled budget and a minister of finance. The SPD's (French-speaking) party leader and candidate for Chancellor Martin Schulz also backed Macron's plans for a common Eurozone budget directly following the latter's election. After the stinging defeats state elections in Saarland and North Rhine-Westphalia, the SPD continues to lose support in approval ratings. Presenting a united party that is willing to deepen Franco-German cooperation as the engine of an ever-deeper EU-integration could be one strategy left to differentiate the SPD from the Merkel-led CDU.

SCENARIO 1: BUSINESS AS USUAL



The possibility of Macron's presidency being tarnished by a "co-habitation" with a prime minister of a different party has vastly receded after the June parliamentary election. Even so, Macron, who heads a very young political movement, is not in a position to push his European agenda. Among other reasons, that could be because after its September federal election, Germany might be stuck with a grand coalition, which will limit the Government's room for movement.

Under this scenario, the bilateral partnership between France and Germany is still dominated by Berlin, as has been the case during the past half decade, and more generally since the beginning of the Eurozone crisis.

This imbalance entails that, at least at the economic level, Macron's ambitious reform agenda will continue to depend on Germany's conditions, as has been the case with the French president's predecessors. This implies a strict adherence to the EU rules on budget consolidation, coupled with reforms such as that of the labour market, whose applicability and success in other contexts than Northern Europe has already proven contentious.

The "Business as Usual" scenario is not static. The perspective of five more years perpetuating, rather than changing, the current European power dynamics would embolden populists again. Their support appears to have peaked in the 2017 electoral round, but it has not been quieted, judging by the continuing electoral support of populist parties in both the Dutch and French elections.

SCENARIO 2: THE GRAND BARGAIN



Macron obtains a "presidential majority" to support his reform agenda. Similarly, Germany witnesses the re-election of Chancellor Angela Merkel, stably ahead in most polls. Now in her fourth mandate, Chancellor Merkel will be willing to push for previously unpopular compromises that will advance the European project. From a German perspective, this new momentum will also be motivated by the belief that in lack of a credible integration project, Europe would again open its flank to a virulent populist critique.

Any such Grand Bargain will inevitably involve closer integration in the fiscal dimension. This is hated in the more conservative segments of Germany's political

establishment, because of the enduring gaps in macro-economic fundamentals and competitiveness among the European nations. For Germany to relent, European member states will need to further converge – and offer something in return.

It is hard to imagine what France will put on the plate that could match a German concession of fiscal rules. In keeping with the focus on foreign- and defence policy that would characterize any rebooting of the Franco-German engine, a more closely integrated EU foreign and defence policy could constitute an area of special consideration.