

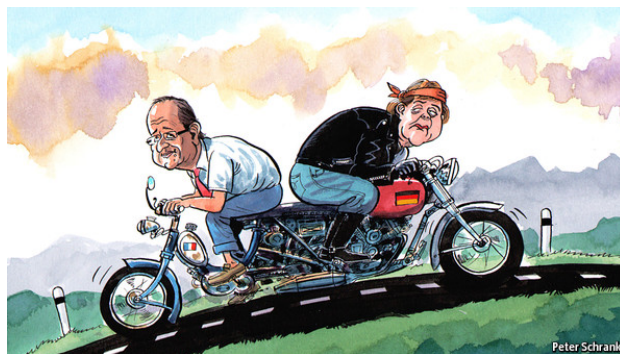
## France and Germany

# A tandem in trouble

**The European Union is fretting over a widening gulf between the two partners that have always acted as its foundations**

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IT HAS been at the core of the European project ever since its inception in the early 1950s. Even so the Franco-German relationship has worked largely by simultaneously disguising both German strength and French weakness. And it has had many ups and downs. Yet a combination of the euro crisis, German economic success under Chancellor Angela Merkel and French economic weakness under President François Hollande has made it more lopsided—and thus more fraught—than ever before.



Consider the demonisation of Mrs Merkel across the euro zone. It is one thing for this to happen in the streets of Athens or Nicosia; quite another when it breaks out in Germany's main partner. Yet Mr Hollande's Socialist Party is lashing out at Germany, and specifically at Mrs Merkel.

The latest row began with a draft party document, leaked to *Le Monde*, that used incendiary language in talking of a European project driven by Mrs Merkel's "selfish intransigence", called her the chancellor of austerity and said her policies were shaped exclusively by concerns for the savings of Germans, the trade balance and her electoral future. This followed a call by Claude Bartolone, the Socialist speaker of parliament, for a "confrontation" with Germany over austerity. Arnaud Montebourg, the industry minister, said it was time to "start a fight" with the EU, seen in France as code for Germany.

The French government is doing its best to limit the damage. The prime minister, Jean-Marc Ayrault, tweeted in German about the value of the long-standing bilateral tie. Yet, on the French left, frustration with Germany is growing. Mr Hollande, himself a keen pro-European, knows how much the partnership matters. But he was elected on a promise to end austerity in Europe. Today he is faced with a rebellious left that sees him as far too indulgent of Mrs Merkel's austerity, and wants him to stand up to her instead.

Mr Hollande's approach to Germany, as to most things, is to do the opposite to his predecessor, Nicolas Sarkozy. Mr Sarkozy would energetically orchestrate a common Franco-German line ahead of and after EU summits, which led to the sobriquet "Merkozy". Mr Hollande has avoided such pre-summit deals and talked up links with other countries. In particular, he has made much of consulting the Italians and Spanish, as part of a southern offensive. This week he welcomed Enrico Letta, the new Italian prime minister, who has said that "austerity is killing us".

Yet Mr Hollande's results, like Mr Sarkozy's, have been mixed at best. The Merkozy show masked a growing imbalance, as France's economy stalled and its competitiveness deteriorated while Germany powered ahead. On Mr Hollande's watch, the Germans have accepted the principle of banking union even if they have been reluctant to translate it into practice. But Mr Hollande had to swallow the fiscal compact he once vowed to renegotiate with only modest concessions on growth. And his calls for eurobonds have got nowhere.

There has been growing support for the view that austerity has gone too far. Yet Mr Hollande cannot claim much of the credit. Part of the problem, says Thomas Klau of the European Council on Foreign Relations, is that "French advocacy is devalued by the perception, rightly or wrongly, that Hollande has not been sufficiently tough about reform in his own country." The Germans seem ready to give the French more time to cut their budget deficit to 3% of GDP, but they want more evidence of French reforms first.

Mr Hollande knows this, just as he understands France's economic problems. Although he began by raising taxes on companies and the rich, he is now belatedly talking of welfare reform and spending cuts and even sounding more business-friendly (see [article](http://www.economist.com/news/business/21577103-change-heart-or-chat-up-line-hollandes-charm-offensive) (<http://www.economist.com/news/business/21577103-change-heart-or-chat-up-line-hollandes-charm-offensive>)). But his consensual style and his divided party, plus his record-low popularity rating, do not suggest that he is ready to test the French by imposing difficult reforms on them. Ambiguity is a hallmark of this presidency; if the Germans want a clearer line on French reform, they may have to wait.

It is also not in Mr Hollande's nature to confront Mrs Merkel. Such an approach would put at risk whatever minimal trust the two leaders have built up over the past year. It would be especially awkward ahead of Germany's election in September. Nor does Mr Hollande have any interest in dividing Europe by setting southern countries against Mrs Merkel. That would not only raise the spectre of a north-south split in the euro zone; it would also class France as merely the leader of Europe's second division. This leaves Mr Hollande with an awkward strategy towards Germany that he calls "friendly tension".

In some ways, it suits him to let his left wing rail against Mrs Merkel. A small group in his

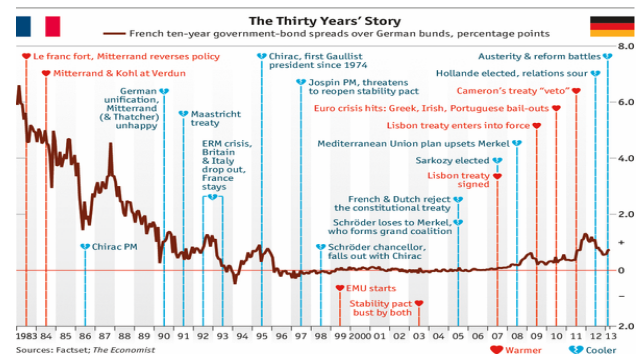
parliamentary party voted against the fiscal treaty last year, and he wants to contain further rebellion ahead of more reforms this summer. In a sense, she may be a convenient scapegoat for the passage of reforms that Mr Hollande and his ministers know to be necessary but unpopular within his party.

## The view across the Rhine

When Konrad Adenauer, chancellor of West Germany, and Charles de Gaulle, France's president, met in 1962 in Reims cathedral for a mass of reconciliation, de Gaulle's chair was taller than Adenauer's. That was fine with the Germans, who accepted that the French should lead politically even if the Germans led economically. Helmut Kohl, a later chancellor, proudly followed Adenauer's advice to bow three times to the French tricolour before nodding to Germany's black, red and gold.

Yet German understanding is being tested as never before. "Publicly, I'm never worried about France; I trust," says one official wryly, before expounding how trusting is now hard. Others are less coy. On April 30th the economics minister, Philipp Rösler, issued a report that fretted about French industry losing competitiveness and companies moving abroad. Germany's private sector has dropped all reticence. "France is drifting to the south," warns an economist at Commerzbank. At a recent business gathering in Berlin, France was treated as a case study in Socialist mismanagement.

The Franco-German tandem has survived many rough patches over the past 30 years (see chart). Mitterrand shocked the Germans with his nationalisation and devaluation spree in 1981, before reversing policy and adopting the *franc fort*. Gerhard Schröder and Jacques Chirac spent half a year in the late 1990s barely talking. Mrs Merkel had problems with Mr Sarkozy, even though both are from the centre-right; the two fell out badly over his proposed "Mediterranean Union" that at first excluded Germany. Yet in last year's presidential election, she openly backed him. By doing this, Mrs Merkel bears much of the blame for the current fridity, says Jürgen Trittin, of Germany's Green Party: she "confused a strategic friendship between our two countries with an ideological bond to the former president."



On a scale of one to ten, the friendship now rates lower than two, says Ronja Kempin at the German Institute for International and Security Affairs. Perhaps for the first time, fundamental disagreements are being aired in the open. Germany scoffs at France's apparent belief that it should show more solidarity in the euro crisis by pledging more German taxes to support weaker members. Instead, it reckons that struggling countries, a group that includes France, must reform their labour and product markets to become more competitive. Otherwise, Mrs Merkel's government thinks,

more German rescue funds would only create “moral hazard” by allowing backsliding over reform.

Yet the Germans may be underestimating the political headwinds against the radical reforms they are demanding of France’s first Socialist president since Mitterrand. And the French also fail to understand that the German government cannot simply push up consumption and reduce competitiveness by raising wages.

The Franco-German chill occasionally tempts Germans to look for other partners. Mrs Merkel is personally closer to Britain’s David Cameron (recently welcoming him and his family to her official country retreat). But Britain is not in the euro and, in German eyes, its desire for a new settlement with the EU and an in/out referendum makes it unsuitable for leadership. Germany has good relations with Poland (where Mrs Merkel, who had a Polish grandfather, is popular). But Poland is not big enough and it, too, is outside the euro.

So France it has to be. Mr Hollande hopes a centre-left coalition of Social Democrats (SPD) and Greens wins the September election. Mrs Merkel realises that he will therefore not undertake big common initiatives until then. Peer Steinbrück, the SPD candidate for chancellor, would be easier to deal with. He finds Mrs Merkel’s view of the euro crisis “one-dimensional”, requiring only “consolidation, consolidation, consolidation”, and he wants to do more to stimulate growth. He is also open to some form of debt mutualisation.

Yet even if Mr Steinbrück wins, which looks unlikely at the moment, Mr Hollande’s hopes could turn out to be an illusion, says Joachim Fritz-Vannahme at the Bertelsmann Foundation, a think-tank. Mr Steinbrück is a fiscal conservative who was Mrs Merkel’s tough finance minister in the grand coalition that ran Germany in 2005-09, when the financial crisis was at its worst.

In the end political differences count for little: Germany and France are stuck with one another. The relationship is underpinned by close institutional and official links, as well as by the formality of the Elysée treaty, whose 50th anniversary was celebrated in Berlin only in January. The duo are also bound to lead in the EU: given their different instincts, if they can strike a deal it is almost bound to be tolerable for everyone else. Even in the euro crisis, Germany is reluctant to be seen as sole leader. It badly needs a French economic revival to have a plausible partner at the top again.

This is why, ultimately, it does not matter “whether they like each other—that has not been the case for years,” comments John Kornblum, a former American ambassador in Berlin. What counts, he says, is that “the French can keep up their end of the bargain and give the Germans reasons to believe it is in their interest to salute the French flag three times,” as Adenauer and Mr Kohl always did so dutifully. France may be frustrated by German austerity, and Germany by French aversion to reform; but the two are nevertheless condemned to work together.

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