

Chapter 15

A New German Hegemony: Does It Exist? Would It be Dangerous?

Editors' introduction

Until the fall of the Berlin Wall in 1989, the so-called German Question denoted the probably most serious and explosive quandary of global politics in the twentieth century. At issue was the problem of how to deal with the largest country in the centre of Europe. Germany was a latecomer state that consisted of numerous small independent territories for centuries, until Prussia's Iron Chancellor Otto von Bismarck achieved unification in 1871, in the aftermath of a victorious war against France. The new German empire aggressively sought to secure and enhance its position among the established countries. This policy resulted in World War I, and, ultimately, in the even greater catastrophe of World War II. The victorious powers tried to deal with the German question once and for all by partly dismembering the country and placing numerous restrictions on its sovereignty. In addition, the Cold War produced the division of what remained of Germany in an Eastern part, which was to become the Communist-ruled German Democratic Republic, and a Western part, consisting of the occupation zones of the United States, Britain and France. Another consequence of the Cold War was the long-term presence of large military forces of Germany's former enemies, now allies, which not only sought to deter attacks from the ideological adversary but also the rebirth of German militarism (Hanrieder, 1989). Militarily, the German problem seemed contained.

The Western occupation zones in divided Germany soon developed into the capitalist Federal Republic of Germany which recovered from the war quite quickly. Within two decades it became one of the economically most successful states of the world. This economic rise revived the issue of German preponderance in new terms. European Integration since the early 1950s was the core instrument to harness Germany's renascent economic clout. German leaders fully endorsed the resulting constraints. The support of European integration became a core element of their foreign policy. When the reunification of East and West

Germany in 1990, accompanied by full sovereignty, reignited concerns about German domination, German chancellor Helmut Kohl consciously used the deepening of the EU to allay these fears. The readiness to give up the German currency, the Deutsche Mark (DM), then one of the strongest currencies in the world, in favour of a common European currency was of utmost importance in this context. Other EU member states had been forced to closely align their economic policies to those of Germany if they wanted to avoid repeated disruptive devaluations. The euro promised to regain some economic influence for them. This worked, until recently.

In the security sphere, Germany's culture of restraint and its refutation of power politics served to silence those few voices that expected a reunited Germany to return to its traditional great-power habits (e.g. Waltz, 1993). However, the crisis of the euro which erupted in 2009 and clearly showed that Germany was still the pivotal economic power in Europe brought the German question back once again. Across Europe, strident denunciations of the German-imposed austerity regime emerged. In addition, the developments in Ukraine also thrust Germany on the centre stage of diplomatic efforts to deal with an assertive Russia. Chancellor Angela Merkel's policy of welcoming over a million refugees in the country has placed a kind of moral leadership on Germany which is deeply resented by many German citizens as well as EU governments.

How should the country react to these new responsibilities? By taking on a role as 'Central Power' (Münkler, 2015), trying to exert leadership and proactively steer Europe through the crisis? Or by continuing its traditional policy of restraint, mindful of history? The two chapters in this section reflect the intense debate among politicians, academics and public commentators about Germany's future role in Europe.

Matthias Matthijs from Johns Hopkins University asserts that Germany has provided the wrong kind of leadership in Europe, by abusing its dominant position as the eurozone's most powerful creditor state to push the burden of economic adjustment onto the European periphery, while being largely ineffective in foreign policy due to its inability to reconcile its realist interests with its liberal values. Miguel Otero Iglesias, who is researcher at the Spanish think tank Elcano Royal Institute, and Hubert Zimmermann from the University of Marburg, Germany, think that the German government, all in all, has behaved responsibly and should continue to provide responsible leadership for Europe. The question of German leadership has relevance for most aspects of EU politics, particularly common European defence policy (Chapter 14) and the politics of the euro (Chapters 8 and 9).

15.1 The failure of German leadership

Matthias Matthijs

Since the early 1990s, Germany's relative power and influence – both in Europe and the wider world – have grown substantially. With the dawn of German reunification, a series of unrelated events have conspired to drape Europe's leadership mantle over the shoulders of Germany's chancellor. The EU decision to go forwards with the single currency at Maastricht in 1992 without the United Kingdom, the slow but ultimately successful reintegration of the Eastern *Länder* into the German economy, the fortunate timing of the *Hartz* reforms in the early 2000s, and the relatively weak economic performance of France and Italy have all combined to make Germany the de facto leader of Europe. Henry Kissinger's question – 'who do I call when I want to call Europe?' – finally has an answer: Angela Merkel in Berlin.

Since 1990, Germany has gently morphed from a 'civilian power' into a 'geo-economic power.' In the 1990s, Germany used to define its interests broadly in civilian or normative terms, within a liberal internationalist framework of multilateral cooperation. Human rights, peace, democracy promotion and a willingness to take on an uneven share of the burden in order to develop supranational institutions used to be the hallmarks of German policy (Maull, 1990). But since the early 2000s, Berlin has increasingly acted in a geo-economic fashion, by elevating its narrow economic interests over other interests. It has been less shy to impose its national preferences onto others, and has shifted to a more selective multilateralism with a much more realist approach to international affairs (Kundnani, 2015; Szabo, 2015). Since the end of the Cold War, Germany has gradually transformed itself from a 'semi-sovereign state' (Katzenstein, 1987) to a more normal 'middle range' power, and leveraged its considerable economic strength to increase its diplomatic clout and international prestige.

European integration is at a crossroads, and Germany is now Europe's 'indispensable nation'. The governance of the euro, the challenge of dealing with a revanchist Russia and emerging powers in Asia and Latin America, and the humanitarian and political consequences of the Arab Spring, all require more rather than less EU cooperation. Collective action is often hard to achieve, and since the traditional Franco-German engine has been sputtering, there is a very strong case for Germany to lead the way, both in its own enlightened interest as well as in Europe's, just like a benign United States led the liberal world in the wake of World War II. While still uncomfortable with the label of being Europe's 'hegemon' or 'leader' for obvious historical

reasons – the German word for leader is *Führer* – Berlin's policy elite has progressively embraced its newfound power, both in the economic realm (through its de facto position as biggest economy and main creditor state in Europe's Economic and Monetary Union) and in foreign affairs (by being NATO's main broker and interlocutor between the United States and a resurgent Russia). Starting in the late summer of 2015, Germany has also played a leading role in dealing with an almost biblical exodus of refugees from war-torn Syria, Iraq and Afghanistan. There is no doubt that over the past five years, German policy has been able to decisively shape events and has had a profound impact in Europe's economic, foreign and domestic affairs. However, though German leadership is desirable, and very much needed in times of crisis, Berlin's actions have been largely misguided. German leadership has singularly failed to deliver either a more stable and prosperous eurozone, a safer and more democratic European neighbourhood or more harmonious relations between the EU's member states.

Conviction without strategy: *ordoliberalism*, rules and the euro crisis

'Never did a ship founder with a captain and a crew more ignorant of the reasons for its misfortune or more impotent to do anything about it', was Marxist historian Eric Hobsbawm's stinging verdict of America's role during the Great Depression (Hobsbawm, 1999: 190). Any analyst of the slowly unfolding train crash that was the euro crisis starting in the autumn of 2009 could be forgiven for saying the exact same thing about Germany's role in it. While Greece had clearly broken the fiscal rules of the Stability and Growth Pact in the most egregious way, and was teetering on the brink of bankruptcy, the dogmatic insistence early on of Germany's lawyer-politicians to stick to the rules, i.e. no bail-outs for Greece, rather than take a more pragmatic and discretionary approach, would lead to outright panic in the bond markets and result in financial contagion to the rest of Europe's periphery (Jones, 2010; Matthijs, 2014a).

From the beginning, there were two fundamentally different euro crisis narratives. 'Systemic' accounts pointed to the euro's flawed institutional design and the many forgotten unions that were never created (economic, fiscal, political, financial, debt and banking). If one subscribed to this view, the solution to the crisis was to build those forgotten institutions and introduce some kind of safe asset or common debt instrument, an economic government and a democratically more legitimate political union (Matthijs and Blyth, 2015; McNamara, 2015). 'National' accounts, preferred by the overwhelming majority of

Germany's policy elite, focused on the flaws within individual member states, and painted the crisis as a morality tale of 'Northern saints' and 'Southern sinners' (Fourcade, 2013). Hard work, high savings, wage restraint and fiscal prudence were seen as Northern virtues; a lack of competitiveness, low savings, inflated wages, excess consumption and fiscal profligacy were seen as Southern vices. The adequate solution for flouting the EU's rules therefore was one of necessary pain and redemption in the South, i.e. austerity and structural reform (Matthijs and McNamara, 2015). This solution to the crisis implied long recessions and painful adjustments, likely to make the crisis worse in the short term in the vain hope of bringing about long-term stability.

Europe's insistence on applying a heavy dose of both 'ordoliberal' and 'neoliberal' medicine as remedies to the crisis – a combination of fiscal rules stipulating austerity measures and structural reforms to enhance competition – meant that Europe's Greek problem would go from a manageable fiscal crisis to a full-blown 'sovereign debt crisis' in a matter of months (Blyth, 2013). Germany, with both Chancellor Merkel and her powerful Finance Minister Wolfgang Schäuble leading the euro pack, played a key role in this. As Merkel herself put it rather bluntly in 2010: 'The rules must not be oriented toward the weak, but toward the strong. That is a hard message. But it is an economic necessity' (as quoted in James, 2011: 530). In other words, Germany's solution to the euro crisis was to run away from its partial responsibility as careless lender to the periphery during the boom period, and push most of the burden of adjustment onto Europe's periphery (Matthijs, 2015).

Of course, there was no malign intent on the part of the German government in any of this. Berlin's policy elites genuinely believed that what they were doing was in Europe's best interest. And therein lies the tragedy of Germany's leadership during the euro crisis, which can be illustrated by Schäuble's own views on what responsible leadership entails. In a speech in Paris in November 2010, Schäuble invoked the relevance of the teachings of economist Charles Kindleberger for Europe's predicament. For Kindleberger, the main cause of the Great Depression had been the fact that a much-weakened United Kingdom could no longer play the role of leader or 'hegemon' in the world economy, and that an isolationist United States was unwilling to do so (Kindleberger, 1973). Kindleberger's view of leadership during crises was that of one state acting alone as the ultimate provider of 'global public goods', including serving as a market for 'distress goods' (goods that cannot find a buyer), practising countercyclical lending, serving as a lender of last resort, managing a system of stable exchange rates and coordinating macroeconomic policy. Schäuble, a lawyer by training, had read Kindleberger very differently. For him, responsible leadership meant France

and Germany respecting and following the rules they had set for themselves at Maastricht in 1992, practising fiscal restraint and avoiding any moral hazard: exactly the opposite of what Kindleberger had in mind (Matthijs, 2015).

If you assess Germany's performance as the provider of 'regional public goods' in a European context, before and during the euro crisis, one can only conclude that it has failed miserably (Matthijs and Blyth, 2011). First, rather than being a market for distress goods, Germany has continued to export much more than it imports during the crisis, and refused to stimulate its own domestic consumption and investment. Second, instead of countercyclical lending, Germany's banking sector practised the opposite, i.e. excessive lending to Europe's periphery during the boom combined with a sudden stop of capital during the bust. Third, far from allowing the ECB to reinterpret its mandate as being a 'real' lender of last resort, Germany has consistently sought to limit the ECB's powers and emphasized its institutional constraints. Fourth, Berlin has dictated a policy of 'austerity for all' to the rest of Europe in place of coordinating macroeconomic policy where the North would inflate by increasing spending while the South would deflate through budgetary austerity.

The main underlying assumption to Germany's behaviour has been that it would be good for Europe's periphery to become more like Germany. But herein lies the rub. Germany can only be Germany because the other countries are not. Not everyone can be a net exporter (you need net importers), and you cannot all simultaneously cut your way to growth (Blyth, 2013). This fallacy of composition – what makes sense for countries individually can be disastrous for all countries taken as a whole – has been at the heart of the euro problem (Matthijs and Blyth, 2011). The contrast between Germany's role in the euro crisis and the United States' role during the global financial crisis of 2008 could not be starker: the United States had learned the lessons from the 1930s and led the world economy by providing all global public goods. This is one of the main reasons why the euro crisis has lasted for over five years, while the worst of the global financial crisis was over after just six months (Matthijs, 2015). There is a historical rationale for Germany's obsession with rules, to be sure, given the legacy of the *Rechtsstaat* rather than democratic government during the Wilhelminian period, and the experience of the Third Reich with its complete disregard for the rule of law. And while rules should be at the heart of any multi-state currency union, they cannot replace leadership during periods of crisis, when enlightened leadership should be confident enough to ignore the rules temporarily for the common good (Jones, 2009; Matthijs and Blyth, 2011).

By 2016, European integration was in deep trouble. Rather than economic convergence, the euro had brought about significant divergence within the eurozone. The gap in living standards between Northern and Southern Europe was back to where it was in the early 1990s. From a political perspective, the popular perception of an all-powerful Germany imposing draconian terms on Southern Europe, especially in Greece, has been very bad for the European project (Matthijs, 2014b). The whole point of the European Union was to ban the 'German Problem' to the dustbin of history. After a long night of negotiations in July 2015, during which Greece's left-wing Syriza government was forced to choose between 'Grexit' (exit from the eurozone) or a humiliating acceptance of much harsher bailout terms than Greek voters had rejected in a referendum one week earlier, former German foreign minister Joschka Fischer observed 'the return of the Ugly German'. By compelling a member of the eurozone to leave 'voluntarily', Fischer believed Germany 'announced its desire to transform the eurozone from a European project into a kind of sphere of influence' (Fischer, 2015).

Strategy without conviction: foreign policy between interests and values

In the realm of foreign and security policy, Germany in the twenty-first century has been torn between its normative values as a 'civilian power' and its realist interests as a 'geo-economic' power, even though it has been slowly moving towards the latter (Kundnani, 2015; Szabo, 2015). On the one hand, in its capacity as civilian power, the country is fully embedded in the transatlantic alliance through NATO and the European Union, which are both built on liberal and Western values and promote democracy, human rights and the rule of law. On the other hand, as a geo-economic power, Germany is driven more by its economic interests, which often clash with those Western values, not least when it comes to doing business with a fast growing but authoritarian China, and its energy dependence and commercial ties with a renascent Russia. Both states have poor human rights records, have their own idiosyncratic interpretation of the rule of law and can hardly be called democratic. Yet Berlin has recently taken a more realist line by pushing aside some of its values in order to secure lucrative business deals.

Nowhere has this clash between interests and values been more obvious than in Berlin's dealings with Moscow over the crisis in Ukraine in 2014. While Germany supported the European Union's offer of a far-reaching trade deal with Ukraine in November 2013, consistent with its liberal values and soft power projection, it was caught off guard when then Ukrainian president Viktor Yanukovich cancelled the EU

deal in favour of closer cooperation and commercial ties with Vladimir Putin's Russia. While Germany is a key member of the European Union, it has a long history of engagement with Russia, and since Chancellor Willy Brandt's *Ostpolitik*, a time-honoured tradition of engaging with the East, known as *Wandel durch Handel*, or 'change through trade' (Szabo, 2015: 25).

When pro-EU protests in Kiev's Maidan Square turned violent and Yanukovich was forced to resign in February 2014, Moscow interpreted the overthrow of Ukraine's democratically elected and pro-Russian president as a coup d'état. The turmoil in Kiev was the pretext for Russia's military invasion of the Crimea, and subsequent annexation in March 2014 (Mearsheimer, 2014). Putin justified the offensive as Russia protecting its vital strategic interests, including its fleet at Sevastopol, given the risk of Ukraine joining NATO and a rival naval base in the Black Sea. In April 2014, protestors – with the help of pro-Russian paramilitary troops – seized and held government buildings of the East Ukrainian cities Luhansk and Donetsk, de facto splitting Ukraine in a pro-Western and pro-Russian part. Russia's seizure of Crimea constituted a clear violation of the post-war international system's rules of the game: it was the first time since World War II that Europe's borders were being redrawn by military force.

Germany has played a skilful diplomatic – but ultimately unsatisfying – balancing role during the Ukraine conflict, acting as mediator between Russia and the West. While on the one hand, Germany agreed with the United States and its EU partners to impose a series of sanctions on Russia, and Ukraine signed a landmark Association Agreement with the EU in June 2014, Berlin has been careful to keep open the lines of communication with Moscow. Germany helped broker the Minsk truce between the Ukrainian government and pro-Russia rebels in September 2014, and a gas supply deal between Moscow and Kiev in October 2014. According to Stephen Szabo, 'President Obama relied on Chancellor Merkel to take the lead in mediation attempts with Russian President Vladimir Putin and it was clear that whatever sanctions regime emerge[d] would only go as far as Berlin [permitted]' (Szabo, 2015: 129).

The results of Germany's leadership of Western diplomatic efforts to deal with Putin's Russia are dismal. Europe has ended up with a divided Ukraine, and a Russia that has hardly been punished for unilaterally seizing a big chunk of territory of a sovereign country by brute military force. The Baltic States as well as Poland for the first time since the Cold War feel seriously threatened again in their own security. German foreign policy, sympathetic to its Eastern neighbours' fears but wary to alienate its Russian business partners, lack a credible deterrent that would come with a much more powerful military. In the end, Berlin has

done very little to allay their Eastern neighbours' fears, and the EU's agreement with Ukraine is a clear example of biting off more than one can chew. If the negotiation of a third bailout for Greece, a member of the eurozone, proved to be a gargantuan task, there is little hope for a financial package for Ukraine, a country with a much more corrupt government that is (and may remain) still a long way off from EU membership.

While Germany's interests are to continue to do business with Russia, its values point in another direction. Unlike Lord Palmerston's Victorian Britain in the nineteenth century, which only had permanent interests and no permanent friends, Germany does have permanent friends in NATO and in the European Union. For better or worse, Germany's strategic future is tied up with the West and its liberal values. As opposed to economics, leadership in foreign policy does actually entail enforcing the rules of a liberal world order rather than ignoring them when they conflict with commercial interests. A tighter Western bloc may have got Putin to rethink his own aggressive tactics. In foreign policy, it has been German weakness – both in terms of its principles as well as in terms of its military power – rather than German strength that has undermined its leadership potential.

In the most recent crisis facing the European Union, caused by the sudden upsurge in refugees and migrants from the Middle East and North Africa, Germany has unambiguously taken the lead by taking in a hugely disproportionate share of all asylum seekers. Germany received over 1 million refugees in 2015 alone, and was expected to take in about twice that amount in 2016 at the time of writing. Unlike in the euro crisis, Germany decided to lead the rest of Europe on the refugee crisis by taking on the main humanitarian burden and by breaking the EU rules set out in the Dublin Convention. Merkel's *Willkommenskultur* (welcoming culture) and open border policy gained her plaudits all over the world and earned her Time Magazine's 'Person of the Year'.

However, the other EU member states – led by Hungary, Poland, the Czech Republic and Slovakia – were less thrilled by Germany's approach. They felt that Germany's unilateral decisions had forced their hand. Despite its economic size and moral leadership on refugees, Berlin was not able to get the rest of Europe to follow up with a collective response. Leadership in the end requires others willing to follow, and the rest of Europe seemed all too happy for Berlin to take on the brunt of asylum seekers. While Berlin could force the Greeks to radically reform its economy during the euro crisis, it was not able to get the Slovaks or the Czechs to accept even a handful of refugees. This last crisis thus only underlines the fact that the European Union, and German leadership within Europe, still have a long way to go.

Conclusion: The discontents of a German Europe

In a speech in Hamburg in 1953, German novelist Thomas Mann told an audience of German students: 'We do not want a German Europe, but a European Germany' (as quoted by Garton Ash, 2012). In the early 1990s, after German reunification and the signing of the Treaty of Maastricht, it certainly looked like Mann had gotten his wish. Just over 20 years later, however, the tables seemed to have turned. While Germany has been forced into a difficult balancing act between rules and discretion in the eurozone, and between interests and values in its foreign policy, we have ended up with a much more German Europe, but not necessarily for the better.

15.2 A benign hegemon: Germany's European vocation

Miguel Otero-Iglesias and Hubert Zimmermann

'Benign Hegemony' is a concept many scholars have used to describe US global politics after 1945, at least with respect to its behaviour towards allies. A benign hegemon is characterized by a policy of restraint in the exercise of its power, by respect for mutual commitments, by the provision of military and economic security for allies, and the acceptance of a role as honest broker (Ikenberry, 2001). While many might contest that the United States ever lived up to this standard, proponents of the so-called hegemonic stability theory argue that the existence of a hegemon is a major stabilizing factor for international relations. Among the first to make this argument was Charles Kindleberger who in his work on the Great Depression of the 1930s (1973) argued that the absence of a stabilizing power in the system was the main cause of the catastrophic breakdown. While the term 'hegemon' usually carries a negative connotation, it is well known that conflict in social systems is less likely if somebody takes responsibility for the whole without abusing his or her position. We argue that this is the role Germany has to fulfil in Europe, particularly now, with Britain on its way out of the Union. As Polish foreign minister Radek Sikorski said in 2011 in widely quoted remarks: 'I will probably be the first Polish foreign minister in history to say so, but here it is: I fear German power less than I am beginning to fear German inactivity.' According to him, Germany is Europe's 'indispensable nation', a nation that should not dominate but lead in reform (Sikorski, 2011).

In recent years, particularly after the controversies about Greece's euro membership, Germany has been accused across Europe of

abusing its power as economically dominant country (Beck, 2013). We argue, however, that it has fulfilled this role exerting a benign hegemony within the European Union (EU) particularly in the economic area, but also increasingly in the political sphere. By doing so, we build on Kindleberger's conception of 'stabilizing' leadership. In his view the hegemon needs to provide five public goods: be the buyer of last resort, offer countercyclical long-term lending, secure stable exchange rates, coordinate macroeconomic policies and be the lender of last resort during financial crises. Some authors (Matthijs and Blyth, 2011) claim that Germany fails to deliver on each of these goods. However, reality is more complex. Germany might not be the market of distressed goods, but it has made the euro a stable currency, and it has lent considerable money to the periphery in good and bad times. Usually, fulfilling all of these tasks implies an active role by the hegemon. We argue, however, that in the EU benign hegemony might be better performed, especially by Germany, under a passive mode. This is particularly true if we consider hegemony beyond the monetary field. Germany has acted as a firm anchor for Europe by having a stable democratic political system and by being a consensus-builder rather than a leader in trying to converge the foreign policies of 28 member states into one EU foreign policy vis-à-vis heavyweights such as the United States, Russia and China. In late 2015, opening its borders generously to more than a million refugees from Syria and other conflict areas, Germany also acted as a moral leader, despite strong misgivings among its European partners and a surge of xenophobic sentiment in Germany.

Throughout the existence of European integration, Germany as the largest European economy has not only been an anchor of stability, but it also provided economic resources which made most common policies possible in the first place. While it usually deferred to France with regard to political leadership, it has recently also taken on a more proactive role in the political sphere. This is a complicated balancing act. History matters a lot in understanding Germany's role in Europe. The territories that today form the Federal Republic of Germany have been pivotal for the stability of the Continent for centuries (Simms, 2013). From the fifteenth century until the nineteenth century, when modern Germany was created, European powers (Spain, France, England and Russia) tried to control those lands in order to establish a balance of power among themselves or to consolidate their supremacy over their rivals. England in particular was keen not to let the geographic core of Europe fall under Spanish, French or Russian rule. During this period, the German peoples formed administratively the Holy Roman Empire, but politically they were divided and weak. In the nineteenth

century, however, they united and a new powerful nation state emerged. In the twentieth century, Germany tried to expand its *Lebensraum* by starting two devastating world wars, and failed. The lesson for Germany's political elite has been clear. Germany should never try to be the hegemon again (Schäuble and Lamers, 1994).

This historical perspective is fundamental to understand Germany's contemporary benign hegemony. It is a strategy which is not actively pursued. As several authors have explained (Chang, 2003; Paterson, 2011), Germany is a reluctant hegemon. But it is precisely this passive, cautious approach that is beneficial for the EU as a whole. If Germany would act as a self-confident leader which imposes actively (and sometimes aggressively) its will, as the United States has done over the past 50 years, the European continent would become mired in economic and political tensions. Hence, Germany's biggest positive contribution to the EU is that it has remained a bastion of stability in the heart of the Continent. Despite facing enormous challenges over the past decades, Germany was able to cope with the tensions of the Cold War, the fall of the Berlin Wall, the reunification of the country, the economic downturn of the early 2000s (when it was described as the 'Sick Man of Europe'), the Global Financial Crisis and the European banking and sovereign debt crisis, with a remarkable degree of stability and resilience. With steady growth, low unemployment and consensus-based political system, Germany is the strong, stable and central pillar that holds the European house together. The country has become somewhat of a role model. Recent polls have identified Germany repeatedly as the world's most positively viewed nation (BBC, 2013). In all rankings of good governance and freedom, Germany is among the top-placed countries in the world (Freedom House, 2015).

Overall Germany has devoted extraordinary amounts of political and financial capital to improve the living standards of its neighbouring countries. This behaviour was certainly not altruistic. The German political and industrial elites were seeking political stability and new markets. But which hegemon acts only on altruistic grounds? Nonetheless, the level of solidarity that Germany has offered to the rest of the members of the EU is unprecedented in history. For a long time, negotiations in Brussels would run smoothly because Germany was willing to pay more than the other European powers (especially the UK and France) in order to reach agreements that would keep everyone happy (e.g. Soros, 2013). Germany's financial concessions started already when the Common Agriculture Policy (CAP) was agreed. Industrial Germany was willing to subsidise French farmers in order for them to buy German machines (Knudsen, 2009). This is a textbook example of a benign hegemon, even for Kindleberger. Without this first step, the European Economic

Community would not have lasted, and thus the single market and the European Union (arguably the most idealistic project in human history) would never have come into existence. If Germany had not put the money on the table, Gaullist France would never have accepted pooling its sovereignty.

This is no different for most of the member states that joined the rich club of the EU at a later stage. Countries such as Greece, Ireland, Portugal and Spain (GIPS) had a per capita income much lower than the six founding countries, and Germany was the chief contributor to the structural and cohesion funds that were poured into these countries to achieve closer convergence. One just needs to travel around the GIPS to see how many projects were and are still funded by the EU. Unfortunately, some of this money was wasted due to corruption and mismanagement (this is why the German policymakers and taxpayers are reluctant to follow the same strategy in the aftermath of the European debt crisis), but certain countries like Spain have effectively used it to upgrade its infrastructures and transport networks, and consequently its productivity and per capita income. If one analyses how much a country like Spain has benefited from EU funds, the amount is very similar (in real terms) to the amount received by Europe as whole under the Marshall Plan (Criado, 2010).

Germany has also been fundamental in completing the EU enlargement successfully, another extremely positive milestone in European integration. Many think that the enlargement was too hasty because a lot of these countries (especially Bulgaria and Romania) were too poor to achieve political and economic convergence with the rest of the EU (see the chapters by Epstein and Bickerton in this volume). They point out that German industry's eagerness to enter new markets trumped political and geopolitical considerations (Russia did certainly not welcome such a swift move of EU borders to the East). However, if one asks the public opinions of these countries, the overwhelming majority sees membership in the EU as a positive development. In general, despite the collective action problems that come with a higher number of members in the club, the big bang enlargement of 2004 and 2007 was completed rather smoothly. Who would have imagined 20 years ago that Donald Tusk, a Polish national, would become the President of the EU? This successful integration was in great part thanks to Germany, which has historical, economic, political and cultural links with many of these countries, and thus was quintessential in including them in the European family.

While enlargement is generally conceived as a success story, the other big European project of the past 25 years, European Monetary Union, is now seen by many as a failure (Matthijs and Blyth, 2015). The eurozone

debt crisis and Germany's clumsy response to it have reinforced this view. Here again we think that the critique to Germany is overstated. First, it has to be noted that the acceptance of the common currency has been an enormous concession. Germany's mark used to be one of the most respected currencies in the world, so much so that other European currencies increasingly tried to stabilize their currencies by pegging their value to the mark. However, this forced them to mirror German economic policies, undergo periodic bouts of adjustment and generally lose their autonomy in monetary policies. For this reason, it became a core goal of France and other European countries to reduce their dependence on German monetary policies. Germany was not in principle opposed to a common currency; however, it was afraid that differences in economic policies would lead to costly fiscal transfers in a monetary union. Therefore, it was adamant in creating a currency based on German stability principles and on the prohibition of automatic mutual bailouts (which it was afraid would mostly be financed by the German taxpayer).

If we analyse Germany's response through the 'stability first' lens, we can see that Angela Merkel's crisis management was more benign than commonly thought. In first instance, it was positive that Germany sailed through the crisis with stable governments and a strong leader who was able to gain the trust of the German people (always sceptical about the eurozone becoming a permanent transfer union). Merkel defended German interests as fiercely as she could by saying innumerable times '*nein*' to big rescue funds for the GIPS countries and attempts of debt mutualization led by France, but by doing so she was able to clip the wings of monetary hawks in Germany. When it was necessary she had sufficient room for manoeuvre to cross certain German red lines without losing the support of her voters. Critics of abusive or ineffective German leadership often forget that even the governments of the most powerful countries have to build a domestic consensus for their policies. This is particularly true in the case of Germany, the political system of which is characterized by the existence of numerous checks and balances, such as the division of responsibilities between the federal level and states (*Länder*), the existence of a powerful constitutional court and the fact that all its governments are coalitions between different parties. Accommodating the requirements of European cooperation often means overcoming strong domestic opposition.

Despite its reluctance throughout the crisis, when the break-up of the euro was at stake, Germany has always stepped in to hold the union together. Merkel and the Bundestag agreed to rescue first Greece, then Ireland and Portugal, and later the Spanish banking system and Cyprus

with the creation of the permanent European Stability Mechanism (ESM), which has now a firepower of €500 billion, and is a de facto European Monetary Fund. Finally, the German political establishment accepted the creation of the banking union and, perhaps most importantly, restrained from openly criticizing the president of the ECB, Mario Draghi, when he stated that the ECB would do whatever it takes (within its mandate) to save the euro, including buying sovereign bonds from the member states. Given the figures involved, these rescues were only accepted by German public opinion because Merkel followed a very cautious and conservative approach. Had she thrown huge amounts of money into the ailing periphery to avoid contagion in May 2010, as many demanded, it is unclear whether the German public would have accepted this and re-elected her.

Of course, Merkel's primary objective was not to rescue the populations of the periphery but rather the German economy and the project of European integration which had served Germany so well. But yet again we should not confuse a benign hegemon with an altruistic one. In the midst of the crisis, every state looked to preserve its own national interests. Germany's strategy, by contrast, followed the pattern described above of 'stability comes first'. Merkel needed first to save the German banks and, by default, the German depositors. Her second concern was to get the country out of the 2008–2009 recession (turning the German export machine towards China) to keep unemployment levels low. Once these two objectives were secured, she was willing to make concessions to the indebted periphery.

But yet again, the strategy was to obtain long-term stability. The view from Berlin was that sovereign debt spreads were a helpful mechanism to enforce structural reforms in the southern countries of the eurozone. Germany could have come with a Marshall Plan for the South, but without proper control of how the money was to be used, much of it could have been wasted, as happened with the structural and cohesion funds. To avoid this, Germany could have taken matters in its hand and managed the whole endeavour on its own as the active leader of the EU, but this would be seen in the South as German colonialism. So given the circumstances, letting the markets apply their pressure was perhaps the least damaging option for Germany. Ultimately, countries like Ireland, Portugal and Spain did undertake some of the needed reforms.

Some critics read Germany's good economic performance very differently. They argue that it represents Germany's predatory, and not benign, hegemony. They claim Germany has constructed a eurozone that is clearly in its favour. Some even go as far as denouncing that Germany has embarked in a neo-mercantilist strategy of low wages and domestic

demand repression which is highly detrimental for its own people and utterly destructive for the EU as a whole (Posen, 2013). We disagree. It is certainly true that the euro has benefited Germany immensely. Had Germany kept the Deutsche Mark, its exchange rate value would have been much stronger and the large surpluses accumulated over the past years would have been smaller. But can we really blame Germany for the problems in the European periphery? Is it Germany's fault that in these countries the education systems are dysfunctional, the expenditure in R&D is below the EU average, the productivity levels are low, the high-tech industry is limited and clientelism and corruption are systemic? These are domestic problems and Germany had no responsibility in their creation.

The truth is that the German political and economic establishment knows that there are only two options for the future. If Germany wants to preserve the stability of *Modell Deutschland* based on its exporting capacity and its huge current account surpluses, it either needs to subsidize the less competitive regions within the monetary union or go back to the Deutsche Mark and go it alone. The German elite still believes that the former is the right path and this is the reason why it wants, through the principle of self-help, make the strongest parts of the periphery fit to compete in an ever globalized and multipolar world (so as to reduce the costs of the subsidies) and offer the necessary solidarity, with strict conditionality, to the weakest so that they remain in the eurozone.

Germany has acted as a diligent leader of Europe's foreign policy, too, after the invasion of Crimea by Russia. Instead of following the more aggressive stand of the Baltic member states or Poland, first Merkel tried to establish a dialogue with Putin and reach a negotiated solution, as advocated by the less belligerent countries of the EU such as Italy or Spain. However, once Merkel realized that Putin's attitude was unacceptable, she instructed the German diplomatic machinery to seek a consensus (domestically and among the EU member states) to apply sanctions against Russia. This consensus is still holding at the time of writing, showing that the German approach of reluctant but at the same time stabilizing hegemon works.

German leadership was criticized in Europe, not only during the euro crisis but soon after that also on the issue of how Europe should deal with economic migrants and refugees. Responding to a humanitarian emergency situation at the Southern borders of the EU, the German government decided in August 2015 that it would have been immoral to leave the hundreds of thousands of refugees seeking shelter in the EU languish in no man's land. The risks of this courageous decision became soon obvious when some of those who crossed the border were

implicated in terrorist acts, such as the Paris attacks of November 2015, or criminal behaviour. Many EU member states adamantly refuse to share the burden, in particular newly elected right-wing populist governments in Poland and Hungary. It is quite likely that this situation and the unknown longterm consequences of Britain's vote to leave the EU will pose an even greater challenge to German leadership in the next years than the euro crisis.

Overall, thus, Germany has started to face up to the challenge pronounced by the Polish foreign minister and exerted a benign hegemony. In doing this, it behaved responsible, given the many contradicting forces which it had to mediate, like any leader. Claims of Germany abusing its power are wide off the mark.

Chapter 16

Should It Stay or Should It Go? Britain, EU Membership and the Merits of Selective Integration

Editors' introduction

Britain's place in Europe has been controversial for centuries. When, in the 1950s, the six original member countries established the European Community, the United Kingdom first participated in the conference of Messina in 1956 which drew up the founding documents. Soon, however, it withdrew its delegates and decided to establish a rival free trade area (the European Free Trade Association, EFTA) with an awkward mix of members. Six years later, the British government realized it had made a mistake and applied for admission to the EU only to be vetoed by French President de Gaulle. Only after another veto in 1967 and after de Gaulle's death, did Britain finally gain admission in 1973. However, it remained an awkward member, as illustrated by the British rebate on contributions to the EU's budget that was negotiated by British Prime Minister Margaret Thatcher in 1984 and its decision to stay out of the euro in 1992.

Already before the June 2016 referendum, in which British voters opted to leave the EU with a 52 to 48 percent majority, the rise of the Euro-sceptic United Kingdom Independence Party (UKIP) put the future of British EU membership into question. In addition, a rising number of opt-outs requested by the United Kingdom, such as on banking union and migration policy, suggested that the country was drifting towards exit. Exasperation in the rest of the EU has been growing. The pros and cons of British membership are among the most hotly debated issues in the EU, and thus this controversy offers a principled debate on the benefits and drawbacks of EU membership.

In the following, Martin Rhodes argues that "Brexit" is a disaster for both Britain and the EU. For him, EU membership means both economic benefits for Great Britain and greater influence on world affairs. Alan Sked takes the opposite position. He argues that the economic costs of EU membership clearly outweigh the economic benefits: trading with the EU from outside rather than membership in the EU thus is the best policy for the United Kingdom to pursue. This debate connects well with those introduced in Chapters 1 and 2.