Survival

Global Politics and Strategy

ISSN: 0039-6338 (Print) 1468-2699 (Online) Journal homepage: http://www.tandfonline.com/loi/tsur20

The Three Faces of German Leadership

Matthias Matthijs

To cite this article: Matthias Matthijs (2016) The Three Faces of German Leadership, Survival, 58:2, 135-154, DOI: 10.1080/00396338.2016.1161908

To link to this article: http://dx.doi.org/10.1080/00396338.2016.1161908

Published online: 18 Mar 2016.

The Three Faces of German Leadership

Matthias Matthijs

For Angela Merkel, 2015 was a year full of anniversaries. Europe's longest-serving incumbent head of government celebrated a decade in power as Germany's chancellor, and 15 years at the helm of her party, the Christian Democratic Union (CDU). Together with her fellow Germans, she also celebrated the quarter-century commemoration of her country's peaceful reunification of East and West. And as Europe's most influential leader, she observed how the Old Continent marked the 70th anniversary of Germany's defeat on Victory in Europe (VE) Day, 8 May 1945, and remembered the end of the Second World War.

On the one hand, the festivities were a welcome reminder of how far both Germany and Europe as a whole have come. They underscored the truly transformative effects of the process of European integration. From that point of view, Merkel was the justly admired leader of a newly confident Germany, at the heart of a Europe reborn – whole, free and at peace. Through her emblematic 'politics of small steps', Merkel had deftly managed to steer the Continent through stormy waters.

On the other hand, the celebrations masked a darker reality: of a Europe adrift and unable to come to grips with a deep, triple crisis involving shaky eurozone debt, Russian aggression in the east and a sudden surge in migrants and refugees. Seen from this angle, Merkel's reputation for caution, and her preference to delay and obfuscate so as to avoid big decisions, epitomised

Matthias Matthijs is Assistant Professor of International Political Economy at Johns Hopkins University's School of Advanced International Studies (SAIS) in Washington DC. This essay was shortlisted for the 2015 Palliser Prize.

Survival | vol. 58 no. 2 | April–May 2016 | pp. 135–154 DOI 10.1080/00396338.2016.1161908

Germany as a reluctant leader, and thus as a central part of Europe's problems, rather than their solution.

How the European Union eventually makes it through its threefold crisis, and whether it is able to emerge stronger and more united, will largely depend on how Berlin uses its new-found power. Europe's future ultimately depends on whether Germany's destiny to lead will be met by its desire to do so.

Europe's indispensable nation

Since 2010, the calls for German leadership in Europe have been insistent. The most striking appeal came from Radoslaw Sikorski in a November 2011 speech in Berlin:

> I will probably be the first Polish foreign minister in history to say this, but here it is. I fear German power less than I am beginning to fear its inactivity. You have become Europe's indispensable nation. You may not fail to lead.[1]

Especially during the most intense moments of the euro crisis – in spring 2010, autumn 2011, spring 2012 and summer 2015 – there was no shortage of prominent policymakers calling on Germany to 'do something'. These included the president of the United States, the president of the European Central Bank (ECB), the Italian prime minister, the US treasury secretary, the Greek finance minister and the European commissioner for financial affairs.[2] Even rock band U2's lead singer, Bono, in November 2014 wanted 'the German people to lead us in demolishing … the scourge of extreme poverty and preventable disease'.[3]

Why this sudden gusto for German leadership? After all, it was not too long ago that many observers of the European Union dismissed Germany as the sick man of Europe.[4] In the early 2000s, more than a few graduate students were writing thoughtful dissertations on the question of what it was about Germany that made it patently incapable of reforming its economy. What were the institutional constraints that prevented it from growing faster, and why was its rate of unemployment chronically stuck above 10%?

By 2005, after Merkel had taken over at the chancellery from Social Democrat Gerhard Schröder, Germany's economy started to outperform both that of the United States and the eurozone in terms of industrial production. Merkel had arrived just in time to pick the economic fruits of the long adjustment process of German reunification, as well as of the structural reforms initiated by the 2002 Hartz Commission, whose deep unpopularity had cost Schröder his re-election. Germany's export-driven economy thrived during the international economic boom of 2003–07. Its GDP also saw a robust recovery in 2010 and 2011 after the Great Recession of 2008–09, largely fuelled by exports to emerging markets. In less than a decade, Germany had transformed itself from sick man of Europe to economic miracle and export *Weltmeister*.

In autumn 2009, Merkel's CDU received a ringing endorsement from the German electorate. The chancellor was able to ditch her centre-left coalition partners from the Social Democratic Party (SPD) and switch to her preferred centre-right Free Democratic Liberals (FDP). This made Merkel the first Western leader to be re-elected after the global financial crisis. It was therefore no surprise that Europe looked to Germany when it became apparent, in spring 2010, that a Greek fiscal calamity threatened the overall integrity of the eurozone. Not only was Germany the eurozone's largest economy, with close to 28% of its overall GDP, it was also Europe's main creditor nation, and had often played the role of European paymaster in previous crises.[5]

The other large countries in the European Union, furthermore, were relatively weak. France, Germany's traditional ally and reliable co-engine of European integration, suffered from persistently high unemployment and chronically low growth – under both Nicolas Sarkozy and François Hollande – and therefore found its diplomatic clout much reduced. The United Kingdom under David Cameron was in thrall to 'Brexit' – a potential exit from the EU – as a result of Cameron's foolish promise to his Conservative Party's eurosceptic wing to renegotiate the basic terms of British membership in the club. Italy and Spain soon found themselves swept up in the contagion that ensued from the fears of a potential Greek default, and were quickly relegated to the peripheral-debtor camp by the international bond markets. Both Rome and Madrid came to rely heavily on Berlin for financial support to prop up the ailing eurozone. And Poland, despite being one of the fastest-growing EU economies, could not play a leading role as long as it remained out of the eurozone.

By 2010, a combination of German strength and the weakness of others had put Germany, almost by default, into the driver's seat in Europe. By late 2014, the rest of the world looked to Germany as an example to follow, and aspired towards its own version of a German success story. Its appealing multi-ethnic football team had just won the World Cup in Brazil in style, and Germany would also top the Anholt-GfK Roper Nation Brands Index for the first time, beating the United States, the United Kingdom and France to the title of the world's best-regarded country.[6] Berlin had become a favourite destination for Europe's young, either in search of work or attracted by its cultural scene. Henry Kissinger's rhetorical question – 'Who do I call when I want to call Europe?' – finally had an answer: Angela Merkel, in Berlin. (The United States' National Security Agency, of course, had long since understood this, having tapped the phones of Merkel and her senior ministers.[7])

Given the steady beat of success in all things economic, political and even cultural, Germany's sudden rise happened before most observers had even noticed it, and thereby held the tint of inevitability. But Germany's peculiar and twisted history pointed in a very different direction.

The German question

For students of nineteenth- and twentieth-century German history, the loud calls from the rest of Europe and the world for *more* German leadership must have seemed rather outlandish. After all, it was not so long ago that German historians debated whether Germany could ever be considered a 'normal' country, and thereby ever take on a mantle of regional or global leadership.[8] The *Historikerstreit*, or historians' dispute, of the late 1980s pitted left- and right-wing intellectuals against each other in a fierce debate about Germany's past. The former argued that Germany had followed a *Sonderweg* (or 'unique path') in Western Europe, as the country had singularly failed to embrace a liberal-democratic system, which they held to be the natural complement of capitalist industrial development in the late nineteenth century. The latter argued that Germany's atrocities, as wicked as they were, were not as exceptional as their opponents made them out to be.[9]

For left-wing intellectuals such as Jürgen Habermas, the Nazi crimes of the 1930s and 1940s were uniquely evil, and comparing the Holocaust to other crimes against humanity equated to a malicious attempt to whitewash Germany's past. On the right, the historian Ernst Nolte, who had triggered the great historians' dispute, advanced the thesis that the German people had turned to fascism and race murder in response to the existential threat and class murder of Soviet communism. He had no qualms about comparing Germany's atrocities under Hitler with those of Stalin's Soviet Union or Mao's China. Also on the right, prominent historian Michael Stürmer openly lamented the gaping void of an alternative 'positive' history, in which the German people could rightfully take pride.[10]

A solution to the 'German problem' – a large country at the very heart of Europe that was simply too strong and too dynamic for its neighbours to accommodate and contain – was, after all, a central tenet of Europe's post-war political system. A Germany split in two during the Cold War between capitalist West and communist East to a large extent assuaged its neighbours' fears of renewed dominance. François Mauriac, the French Nobel laureate in literature, once wrote that he loved Germany so much that he was glad there were two of them.[11] Hastings Ismay, NATO's first secretary-general, has been credited with the quip that the purpose of the transatlantic security alliance was 'to keep the Russians out, the Americans in, and the Germans down'.[12] For most of the Cold War, it seemed unlikely that Germany would ever be considered a 'normal' state, let alone a leader of Europe.

Peter Katzenstein, the Cornell University political scientist, captured this idea of West Germany as a 'semi-sovereign state' in 1987.[13] Katzenstein looked beyond Germany's international-security situation to examine the domestic structures that tamed power from within, acting as a check against too strong a central government. West Germany's strict proportional-representation electoral system all but guaranteed coalition governments in Bonn, while powerful independent institutions such as the Deutsche Bundesbank in Frankfurt and the Federal Constitutional Court in Karlsruhe significantly constrained executive power. Furthermore, a federal division of labour between a weak central government and powerful *Länder* (states), as well as a strong state bureaucracy, significantly limited the chancellor's policy discretion. This led British political scientists Simon Bulmer and William Paterson to describe West Germany as a 'semi-Gulliver' or a 'shackled, gentle giant'.[14]

In 1990, after the 'two plus four' talks that eventually resulted in German reunification, the United States was ready to offer Germany a 'partnership in leadership'.[15] But Helmut Kohl politely declined, and instead chose to forge a closer alliance with François Mitterrand's France, culminating in the signing of the Maastricht Treaty in 1992. While Germany during the 1990s was preoccupied with the economic consequences of reunification, and in the early 2000s with the painful Hartz reforms, it was more than happy to leave Europe's leadership in the hands of the French. The British enjoyed the heyday of their 'special relationship' with the Americans, especially during the run-up to the Iraq War of 2003, which was bitterly opposed by both Jacques Chirac's France and Schröder's Germany. This caused a significant transatlantic crisis, even a 'parting of ways' between Washington and Berlin, as Stephen Szabo put it at the time.[16]

By 2010, however, it was clear that Germany had emerged as the leader of Europe. Suddenly and distressingly, Angela Merkel found herself compared with Otto von Bismarck, and even Hitler, in the European media. Scholars were no longer describing Germany in 'semi-sovereign' terms, nor asking the question of whether it could ever be considered a normal state. Instead, they started referring to Germany as a 'geo-economic' power or a 'reluctant hegemon'.[17] Did this rejuvenation of German power imply the return of the German problem? *The Economist* in October 2010 responded in characteristic fashion: 'The German question never dies. Instead, like a flu virus, it mutates.'[18]

Three dimensions of German power

Power is a matter of getting someone to do what he or she would otherwise not do. Writing in the pluralist tradition of American democratic theory, the Yale political theorist Robert Dahl defined power from an interactive point of view, where one individual can modify the behaviour of another individual within a given decision-making process.[19] Power belongs to the person who prevails within that process. Dahl saw power largely in structural terms, broadly along the lines of the realist tradition in international relations, where states are the central actors in the international system, and a state's national interest is materially given. A country's power depends on factors such as its economy, trade relations, total land mass, natural resources, population and military prowess.[20]

Translated to the context of the European Union, Germany's structural power is substantial. But while it has grown considerably since 1990, it remains uneven. Germany's structural power is largely limited to the realm of trade and economics, where it enjoys the financial firepower and prestige of being Europe's largest economy, main export dynamo and chief creditor nation. It has enjoyed the trust of financial markets, and can borrow at permanently lower rates than its neighbours, giving it its own unique kind of 'exorbitant privilege'.[21] Ever since the creation of the European Economic Community in the 1950s, Germany has served as Europe's paymaster.

In the key fields of international security and diplomacy, however, Germany remains a second-rank power at best. It lacks a strong navy, army and air force of its own, and possesses few natural resources apart from coal and steel. When it comes to foreign policy, it more often than not yields to nations with much stronger militaries, such as France and Great Britain.

But power is complex and multidimensional. As the neo-Marxist social scientists Peter Bachrach and Morton Baratz have argued, power can also lie in the ability to shape the agenda or set the boundaries of a decision-making process: 'To the extent that a person or a group – consciously or unconsciously – creates or reinforces barriers to the public airing of policy conflicts, that person or group has power.'[22] Put differently, power can be institutional, giving one state significant decision-making powers within a regional group of states, either in the field of economics or foreign affairs. This dimension of power corresponds to the liberal-institutionalist tradition in international relations, in which international treaties are the outcome of the grand bargains struck by powerful states based on their material preferences and interests.[23]

Germany's institutional and agenda-setting power within the European Union comes from its significant voting powers within the European Parliament and European Council. Germany is by far the largest net contributor to the EU budget. It was pivotal in agreeing to the creation of an Economic and Monetary Union in the early 1990s, and therefore managed to set the terms of the euro's governance. The European Central Bank was set up as the mirror image of the German Bundesbank, and has its seat in Frankfurt, while a 'no bailout' clause and a Stability and Growth Pact largely reflected German preferences. Even in foreign and security policy, where decisions are taken unanimously, Germany's voice carries significant weight, given that it holds the purse strings. The size of its domestic economy also gives Germany significant leverage, especially when the EU wants to implement economic sanctions against third parties.

Beyond the structural and institutional dimensions, power can also lie in ideas. As the sociologist Steven Lukes has observed, a dominant actor can shape the preferences of other actors in such a way that they end up reinforcing its position of dominance: 'A may exercise power over B by getting him to do what he does not want to do, but he also exercises power over him by influencing, shaping or determining his very wants.'[24] This dimension of power matches the constructivist tradition in international relations, which gives causal explanatory power to ideas, and explains certain puzzling outcomes – like the design of international institutions – by looking into the ideas rather than the pure material interests of the most powerful actors.[25]

German ideas, both in the areas of economics and foreign policy, have been very influential in the process of European integration, shaping the nature and design of European institutions. Germany's strict adherence to ordoliberalism – emphasising competition, price stability, fiscal restraint and the importance of rules over discretion – has been central in drawing up a blueprint for economic and monetary union.[26] Given its economic dynamism, its ideas carry considerable weight with other eurozone members, manifested by the importance of fiscal austerity and structural reform in EU economic policymaking. The legacy of the Second World War and the Holocaust have turned Germany into a 'civilian' power,[27] a concept largely taken over by the EU's vision of soft-power projection in the world, emphasising universal values of peace, democracy, human rights and the rule of law. Ian Manners, politics professor at the University of Copenhagen, has argued that the European Union today could best be conceived of as a 'normative power'.[28]

Germany's power to act, however, faces significant constraints on all three dimensions. Germany's membership of NATO and of the European Union enables as well as limits its room for manoeuvre. To reverse the famous dictum of nineteenth-century British prime minister Lord Palmerston, it means that Germany has permanent friends (and values), rather than just permanent interests. Its military remains weak for largely self-imposed reasons, and Germany remains dangerously dependent on oil and natural gas from Russia. Germany's reliance on exports also makes it vulnerable to growth slowdowns abroad.

Furthermore, all of the West German domestic institutional checks and balances Peter Katzenstein pointed out in the 1980s have largely endured in today's reunified Germany. Federalism, coalition governments, strong *Länder* and a weak chancellery, as well as a powerful Bundesbank and constitutional court, all continue to limit the potential for German leadership and discretionary decision-making within Europe. And, finally, ordoliberalism as an economic philosophy can also serve to act as a significant constraint on Germany's imagination when it comes to finding comprehensive solutions to fix the design flaws of the eurozone.

Whether Germany will be able to shrug off or loosen some of these constraints will define its leadership potential in the future. Three contemporary crises highlight the dynamics behind Germany's leadership conundrum.

German leadership during Europe's triple crisis

The survival of the euro, the security threat of a revanchist Russia and a dramatic surge in migration from the Middle East and North Africa have dominated the political agenda in Brussels since 2010. All three challenges have required some form of collective action by the Union's now-28 member states. And in all three crises, Germany has used its new-found power and influence to take the lead and shape Europe's collective response. But all three crises underscored a different face of German leadership, as the three dimensions of its power – structural, institutional and ideational – played out in different ways depending on whether the issue area was mainly concerned with economic and financial affairs, foreign policy or domestic politics.

Euro crisis: enforcer-in-chief

While the euro crisis started as a Greek budgetary debacle in autumn 2009, it swiftly escalated into a full-scale sovereign-debt crisis in spring 2010, not least because of Germany's initial procrastination and inaction.[29] By insisting that the onus of the Greek crisis lay with a bankrupt political elite in Athens, whose profligacy had violated the EU's Stability and Growth Pact in the most egregious way, Germany's policy statements not only frightened the bond markets but also quickly reframed the euro crisis into a morality tale of southern fiscal sinners and northern budgetary saints. This made the crisis worse, and meant that large bailouts of the countries in trouble would become inevitable, and go hand in hand with strict conditionality mandating budgetary austerity, wage cuts and labour-market reforms to regain competitiveness.[30]

Rather than focusing on the systemic flaws of the euro's design, Berlin's crisis narrative was one of national redemption on the part of the eurozone's periphery, which could solve the crisis only through budgetary austerity and structural reform. Systemic solutions like a eurobond, common deposit insurance or an economic government to correct for the ECB's 'one size fits none' monetary policy were largely dismissed due to fears of moral hazard.[31] Both Chancellor Merkel and her finance minister, Wolfgang Schäuble, saw Germany's role as being the main underwriter of the fiscal rules that were agreed at Maastricht, and making sure those rules would be strictly enforced in the future. That, it was argued, would guarantee the viability and the strength of the euro in the long term.

Interestingly, in a speech in Paris in November 2010, Schäuble invoked the teachings of Charles Kindleberger on the importance of leadership in times of crisis to apply to both Germany and France.[32] However, his interpretation of Kindleberger's theory of public-goods provision during crises was the exact opposite of what the MIT economist had originally intended.

For Kindleberger, the Great Depression had been so severe because of the failure of Britain and the reluctance of the US to play the role of hegemon, by declining to serve as a market for 'distress goods', act as a lender of last resort or provide counter-cyclical lending.[33] The United States seemed to have learnt from its past mistakes eight decades later, during the 2008 financial crisis, when it did exactly that, providing global public goods by acting as consumer, investor and lender of last resort.

Germany during the euro crisis, however, rejected calls to play the role of regional hegemon. Instead, Berlin continued to act as though Germany was a small, open economy with an export-led growth model. It refused to inflate its own economy, while insisting that the countries of the periphery deflate theirs. It dramatically reversed its private lending during the downturn, and refused for a long time to let the ECB operate as a real lender of last resort.[34] It was only when the more pragmatic and less 'German' Mario Draghi took over from the very 'German' Jean-Claude Trichet in November 2011 that market panic gradually started to ease, and the crisis slowly started to fade. Draghi chose to interpret the ECB's institutional mandate in a much more flexible manner, contrary to the German view, and managed to restore confidence in the markets by promising to do 'whatever it takes' within the ECB's mandate to safeguard the euro.[35]

In the euro crisis, Germany acted as the enforcer-in-chief of European rules. Berlin combined its significant structural power as a major creditor nation and the Continent's biggest economy, as well as its institutional power in the European Council, to all but guarantee that the main burden of adjustment was pushed onto the periphery. It did this by insisting on draconian austerity and reform measures in the countries receiving a bailout, while at the same time giving its own vulnerable banks enough time to rebuild their balance sheets. A much weaker euro further benefited Germany's export industry, and lower sovereign-bond yields have been a boon for its own budgetary situation during the crisis. Finally, its close obedience to ordoliberalism ruled out any systemic solutions.

Today, the crisis lingers on, with the eurozone stuck in a catastrophic equilibrium of low growth and high unemployment, its economy teetering on the brink of outright deflation. Politicians so far have relied on ever greater doses of Draghi magic at the ECB to keep the show on the road. As Mark Blyth and I have argued, however, for the euro to become a stable global reserve currency in the longer term it will need to be much more firmly embedded into supranational social and political institutions, which include a common debt instrument, a genuine financial union and some sort of solidarity mechanism of intra-eurozone fiscal transfers.[36] Germany's policy elite has so far rejected any of those mechanisms out of fear of domestic political opposition and going against prevailing economic wisdom. As long as Berlin interprets its leadership role as following rules, and continues to pander to its electorate's fears of a 'transfer union', the euro's future will remain fragile at best.[37]

Ukraine crisis: facilitator-in-chief

In recent years, Germany has started to play a much more active role in foreign policy. Berlin played a key part in the nuclear deal with Iran, alongside Britain and France, and took the lead in negotiating a ceasefire between Russia and Ukraine. It also initiated and implemented a multilateral sanctions regime to punish Russia for its unilateral annexation of Crimea and its continued support for pro-Russian rebels in Ukraine's breakaway eastern provinces. This foreign-policy activism is a far cry from Germany's decision to abstain from UN Security Council Resolution 1973 in 2011, which authorised NATO's military intervention in Libya. As France and Britain led the military operation that would eventually result in the overthrow of Muammar Gadhafi, Germany largely stood on the sidelines.

Over the past 15 years, Germany has slowly morphed from a 'civilian power' into a 'geo-economic power'.[38] In the 1990s, Germany defined its interests broadly in civilian or normative terms, within a liberal-internationalist framework of multilateral cooperation. Human rights, international 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. But since the early 2000s, Berlin has increasingly acted in a geo-economic fashion, by elevating its narrow economic interests over other political interests.[39] It has been less shy about imposing its national preferences onto others, and has shifted to a more selective multilateralism with a more realist approach to international affairs. Since the end of the Cold War, Germany has gradually transformed itself into a more 'normal' middle power, and leveraged its ample economic strength to increase its diplomatic clout and international prestige.

In dealing with Russia over the conflict in Crimea and eastern Ukraine, Germany has led Europe's response, but wrestled to reconcile its values with its interests, acting as facilitator-in-chief. On the one hand, Berlin strongly opposes Russia's annexation of part of another sovereign country's territory as a clear violation of international law. Just like in economic policy, Berlin believes rules exist to be respected. On the other hand, Berlin quickly ruled out any military response, given its structural weakness, and was well aware that any economic- and financial-sanctions regime against Russia would hurt Germany's economy and business interests more than most other EU members'.

Germany's desire to 'lead from the middle', in the words of its defence minister Ursula von der Leyen, summed up that dilemma. It wants to play what Foreign Minister Frank-Walter Steinmeier has called the role of Europe's 'chief facilitating officer'.[40] But unlike its clout in matters that deal with the euro, where Germany is an economic giant and can influence another country into radically changing its behaviour, Berlin suffers from a large military deficit and remains a dwarf in foreign and security policy. It has largely relied on NATO to provide its security since the end of the Second World War. In 2014, it still spent only 1.1% ($43 billion) of its GDP on defence, a figure well below the NATO target of 2%, and a different order of magnitude from Russia's spending, at 3.7% ($70bn) of GDP.[41] Unlike Britain and France, it also lacks nuclear weapons, which would add significant weight and leverage in a confrontation with another nuclear power.

Furthermore, in dealing with Russian President Vladimir Putin, military vulnerability is exacerbated by large German business interests in Russia and a significant domestic dependence on Russian oil and gas.[42] This has left Germany in the unattractive position of pushing for NATO sanctions against Russia, of which it bears the main financial brunt, while at the same time brokering a ceasefire between the warring parties at Minsk that it has no way of enforcing militarily. At the same time, Germany's insistence on fiscal austerity at home and in the rest of Europe has created the risk that the EU has bitten off much more than it can chew in the case of Ukraine, a large country mired in corruption and deep financial troubles. The task of stabilising Ukraine's economy makes Greece's problems look like a walk in the park. After five years of euro crisis, there is substantial bailout fatigue all over Europe, and it is undeniable that the future of Ukraine remains much more important to Moscow than it will ever be to Brussels or Berlin.

While Germany's foreign-policy balancing act has managed to bring about a brittle ceasefire in Ukraine, and the Western sanctions against Russia have held up remarkably well so far, Crimea seems irrevocably lost. This has set a dangerous precedent in Europe's near abroad, where a stronger country that is willing to use force has permanently violated a weaker country's sovereignty. Putin plays by different rules.

Moreover, Europe and the US need Russia's support in ending the civil war in Syria, and in the fight against the Islamic State (also known as ISIS or ISIL), which together are the main reasons for the massive outflows of refugees into Europe via the Mediterranean. While Germany's foreign-policy leadership has been largely successful in keeping the West united and the sanctions in place, it has not been able to rein in Russia's territorial ambitions. Europe's borders are more vulnerable today than they have been since the end of the Cold War.

Refugee crisis: benefactor-in-chief

The most recent crisis facing the European Union is one of large migration flows from the Middle East and North Africa. The crisis is the direct consequence of the ongoing conflicts in Europe's near abroad and the inability or unwillingness of both the EU and the US to do anything about them. Large flows of people across Europe's borders have proven to be just as much a source of political tension as were large and sudden flows of capital during the euro crisis. With more than 1.8 million people reported to have crossed Europe's borders in 2015, according to Frontex, the EU's external-border force, the migratory flow into Europe is roughly four times that in 2014 and eight times that in 2013.[43] At the time of writing in February 2016, there were no signs of the volume of refugees lessening any time soon. Most of these migrants – asylum seekers and economic immigrants – are headed towards Germany in the hope of a better future.[44]

In dealing with this sudden upsurge in refugees and migrants, Germany has unambiguously taken the lead by accepting a hugely disproportionate share of all asylum seekers. It received around a million in 2015 alone, and is expected to welcome even more in 2016. Rather than insisting that EU rules be followed to the letter, as it did during the euro crisis, Germany proved much more pragmatic in dealing with refugees. The EU's Dublin Regulations stipulate that the first point of entry into the EU determines which member state is responsible for processing the applications of asylum seekers, before transferring them on to other countries. Merkel soon realised that it would be impossible for Italy, Greece and Hungary – the main EU points of entry for new refugees – to process all of them on their own before sending them onwards. Merkel's promotion of a German *Willkommenskultur* (culture of welcoming) and open-door policy gained her worldwide admiration, and stood in stark contrast with her dithering in dealing with the euro crisis and initial caution in handling Russia over Crimea.

Merkel herself promised refugees a warm welcome in Germany, and committed an extra €18bn to state and local governments to accommodate arrivals and help pay for additional expenses, such as state benefits. Here, Germany acted as Europe's benefactor-in-chief, and images of refugees holding up posters of Merkel as their saviour have been a welcome break from the ones in Athens that portrayed her as a Nazi occupier. Merkel's decision to lead by example on refugees was made possible by German economic strength, with more budgetary room than any other European country, but was also motivated by humanitarian concerns. Merkel was conscious of Germany's historic duty, keeping in mind, too, the many Germans displaced in Central Europe in the mid- to late 1940s. She acted decisively, despite facing a serious potential backlash at home.

Berlin's policy establishment would quickly realise, however, that Merkel's promise did not match Germany's absorptive capacity. Merkel's critics soon called her decision naive and foolish rather than bold and brave, as thousands more refugees crossed the Austrian border into Bavaria every day. The migration problem would need a collective response at the European level, rather than unilateral action, no matter how well intentioned. But while the euro crisis revealed a schism between North and South, the refugee crisis laid bare a fault line between West and East. The EU commission led by Jean-Claude Juncker, and supported by Germany and France, tried to impose a mandatory quota system to resettle 160,000 refugees across the EU. Eastern member states led by Hungary, however, and supported by Slovakia, Romania, and the Czech Republic, openly opposed and voted against such a system. Their leaders saw migration as a threat to their culture and a huge burden to their public services. The crisis hence continued unabated, and a comprehensive EU solution looked elusive.

Hungary and Bulgaria were building walls and wired fences

All over Europe, internal borders were being re-erected. While Hungary and Bulgaria were building walls and wired fences on their external EU borders, many other members reinstated internal EU border controls to deal with the refugee flows. This temporary violation of Europe's Schengen agreement, which guarantees the free flow of people across the borders of 26 European countries, was made more permanent after the terrorist attacks in Paris on 13 November 2015 were linked to ISIS. The sheer size of the refugee flows from the Middle East, combined with renewed threats of fundamentalist Islamic terrorism on European soil, pushed European countries to rely on nationalist responses when a European-level response would have been more effective. By February 2016, the Schengen system of open borders had all but collapsed.

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. But despite its economic size and moral leadership on refugees, Berlin was not able to get the rest of Europe to follow its lead. Leadership, in the end, requires others willing to follow, and the rest of Europe seemed all too happy for Berlin to take on the bulk of the asylum seekers. Berlin forced the Greeks to radically reform their economy during the euro crisis, but it was not able to get the Slovaks or the Czechs to accept even a handful of refugees.

* * *

Since 2010, Germany has proven to be the only EU member state capable of taking on Europe's leadership mantle. But it has been hugely frustrated in this role. In all three crises – over the euro, Ukraine and migration – Germany has led, but not effectively. A stubborn devotion to ordoliberalism, fear of a restless domestic electorate, the pressure of powerful commercial interests and the burden of history in military affairs have stood in the way. The euro remains an unfinished and fragile currency; the conflict between Ukraine and Russia is frozen at best; Europe's near abroad is more volatile than before; and the refugee crisis is unlikely to go away any time soon.

All three crises have served to underscore both the promise and the pitfalls of German leadership while at the same time reopening old wounds and revealing fault lines within Europe, both between North and South, and between East and West. This has left policymakers and electorates in both Germany and the rest of the EU deeply frustrated with the status quo. In order to make German leadership in Europe more effective, and more palatable to the rest of Europe, two things will need to happen.

Firstly, in economic policy, Germany needs to allow for more discretion. Rules that make sense only during good times are an ineffective guide in hard times. Rules can only work if they allow for enough flexibility in dealing with crises, and need to be counter-cyclical rather than pro-cyclical. Ordoliberalism might work for a small, export-driven economy, but not for a large, relatively self-sufficient one. At the same time, Berlin needs to start preparing its electorate for the next steps in building a true economic and monetary union, including permanent mechanisms of social solidarity and financial stability. In foreign policy, Germany should lead the EU military effort by stepping up its own defence spending, as well as pushing for a European energy union so as to decrease the EU's dependence on Russian oil and gas.[45] This is the only way to coerce Putin's Russia to start playing by the rules of the post-war international system.

In a speech in Hamburg in 1953, German novelist Thomas Mann told an audience of German students:

> It is the task of the new German generation, of the German youth, to disperse [Europe's] doubts [and] fears by denying the politics of the past

> and by clearly proclaiming their own vote: not for a German Europe, but rather for a European Germany.[46]

For that to become reality, Germany needs to become a 'normal' Western power, and other EU members need to shed their historic fears of a Germany that dominates the rest of Europe. We are a long way away from 1945, and Germany has behaved as a model citizen in the world system ever since. The only way for Europe to remain prosperous and influential in world affairs is for it to complete its economic and monetary union and to act in unity abroad. Europe will not get there through the dreams of EU technocrats in Brussels. It needs a political push, and one country strong enough to lead the effort, though that in itself is simply a necessary, and not a sufficient, condition. For that first and necessary step to be taken, German desire for leadership needs to match its destiny to lead. Europe and the world will be better for it.

Notes

1 Radoslaw Sikorski, 'I Fear Germany's Power Less Than her Inactivity', *Financial Times*, 28 November 2011.

2 Wade Jacoby, 'Europe's New German Problem: The Timing of Politics and the Politics of Timing', in Matthias Matthijs and Mark Blyth (eds), *The Future of the Euro* (New York: Oxford University Press, 2015), pp. 189–90.

3 'Bono Calls for German Leadership to End the Scourge of Extreme Poverty and Preventable Disease', press release, One, 13 November 2014.

4 See, for example, *The Economist*, 3 June 1999 and 24 July 2003.

5 Author's calculations. European Commission, Ameco Database, 2016, http://ec.europa.eu/economy_finance/ameco/user/serie/SelectSerie.cfm.

6 GfK, 'Germany Knocks USA Off Best Nation Top Spot after 5 Years', press release, 12 November 2014.

7 'WikiLeaks: US Spied on Angela Merkel's Ministers Too, Says German Newspaper', *Guardian*, 1 July 2015.

8 Mary N. Hampton, '"The Past, Present, and the Perhaps": Is Germany a "Normal" Power?' *Security Studies*, vol. 10, no. 2, Winter 2000–01, p. 182.

9 Peter Pulzer, 'Unified Germany: A Normal State?' *German Politics*, vol. 3, no. 1, April 1994, p. 7.

10 Michael Stürmer, 'Geschichte im geschichtslosen Land', *Frankfurter Allgemeine Zeitung*, 25 April 1986.

11 The quote is often misattributed to French president Charles de Gaulle. Walter Isaacson, 'Is One Germany Better than Two?', *Time*, 20 November 1989.

12 Quoted in Michael Lind, *The American Way of Strategy: U.S. Foreign Policy and*

the American Way of Life (New York: Oxford University Press, 2008), p. 134.

13 Peter Katzenstein, *Policy and Politics in West Germany: The Growth of a Semisovereign State* (Philadelphia, PA: Temple University Press, 1987).

14 Simon Bulmer and William Paterson, 'West Germany's Role in Europe: "Man-Mountain" or "Semi-Gulliver"?' *Journal of Common Market Studies*, vol. 28, no. 2, 1997, pp. 95–117.

15 George H.W. Bush, 'A Europe Whole and Free: Remarks to the Citizens in Mainz', 31 May 1989, http://www.usembassy.de/usa/etexts/ga6-890531.htm.

16 Stephen F. Szabo, *Parting Ways: The Crisis in German–American Relations* (Washington DC: Brookings University Press, 2004). See also Philip Gordon and Jeremy Shapiro, *Allies at War: America, Europe, and the Crisis over Iraq* (New York: McGraw Hill, 2004).

17 See Hans Kundnani, *The Paradox of German Power* (New York: Oxford University Press, 2014); Stephen F. Szabo, *Germany, Russia, and the Rise of Geo-Economics* (New York: Bloomsbury, 2014); Simon Bulmer and William E. Paterson, 'Germany as the EU's Reluctant Hegemon? Of Economic Strength and Political Constraints', *Journal of European Public Policy*, vol. 20, no. 10, 2013, pp. 1,387–405; Matthias Matthijs and Mark Blyth, 'Why Only Germany Can Fix the Euro', *Foreign Affairs*, 17 November 2011; Abraham Newman, 'The Reluctant Leader: Germany's Euro Experience and the Long Shadow of German Reunification', in Matthijs and Blyth (eds), *The Future of the Euro*, pp. 117–35.

18 'Will Germany Now Take Centre Stage?', *The Economist*, 21 October 2010.

19 Robert Dahl, 'The Concept of Power', *Behavioral Science*, vol. 2, no. 3, 1957, pp. 201–15

20 See Kenneth Waltz, *Theory of International Politics* (Long Grove, IL: Waveland Press, 1979); and Robert Gilpin, *Global Political Economy: Understanding the International Economic Order* (Princeton, NJ: Princeton University Press, 2002).

21 Jacoby, 'Europe's New German Problem', p. 189. Like the US, Germany is perceived by international investors as a financial 'safe haven', and therefore enjoys permanently lower interest rates on its sovereign debt compared to its EU neighbours. This has become painfully clear again in the euro crisis, with Germany enjoying negative interest rates on its short- and medium-term bonds, making it much easier for the German government to balance its budget.

22 Peter Bachrach and Morton S. Baratz, 'Two Faces of Power', *American Political Science Review*, vol. 56, no. 4, 1962, p. 949.

23 See Robert O. Keohane, *After Hegemony: Cooperation and Discord in the World Political Economy* (Princeton, NJ: Princeton University Press, 1984); and Andrew Moravcsik, 'Taking Preferences Seriously: A Liberal Theory of International Politics', *International Organization*, vol. 51, no. 4, Autumn 1997, pp. 513–53.

24 Stephen Lukes, *Power: A Radical View* (London: Macmillan, 1974), p. 23.

25 Alexander Wendt, 'Anarchy is what States Make of it: The Social Construction of Power Politics',

International Organization, vol. 46, no. 2, Spring 1992, pp. 391–425; Mark Blyth, *Great Transformations: Economic Ideas and Institutional Change in the Twentieth Century* (Cambridge: Cambridge University Press, 2002).

26 Matthias Matthijs, 'Powerful Rules Governing the Euro: The Perverse Logic of German Ideas', *Journal of European Public Policy*, vol. 23, no. 3, 2016, pp. 375–91.

27 Hans W. Maull, 'Germany and Japan: The New Civilian Powers', *Foreign Affairs*, vol. 96, no. 5, September/October 1990, pp. 91–106.

28 Ian Manners, 'Normative Power Europe: A Contradiction in Terms?', *Journal of Common Market Studies*, vol. 40, no. 2, 2002, pp. 235–58.

29 Erik Jones, 'Merkel's Folly', *Survival*, vol. 52, no. 3, June–July 2010, pp. 21–38.

30 Matthias Matthijs and Kathleen McNamara, 'The Euro Crisis Theory Effect: Northern Saints, Southern Sinners, and the Demise of the Eurobond', *Journal of European Integration*, vol. 37, no. 2, 2015, pp. 229–46.

31 *Ibid*., pp. 230–1.

32 Wolfgang Schäuble, 'Rede des Bundesministers der Finanzen Dr. Wolfgang Schäuble an der Université Paris-Sorbonne', Bundesministerium der Finanzen, 2 November 2010, http://www.bundesfinanzministerium.de/Content/DE/Reden/2010/2010-11-02-sorbonne.html.

33 Charles Kindleberger, *The World in Depression, 1929–1939* (Berkeley, CA: University of California Press, 1973).

34 Matthijs and Blyth, 'Why Only Germany Can Fix the Euro'.

35 Mario Draghi, speech at the Global Investment Conference, London, 26 July 2012, https://www.ecb.europa.eu/press/key/date/2012/html/sp120726.en.html.

36 Matthijs and Blyth (eds), *The Future of the Euro*, p. 8.

37 *Ibid*., p. 268.

38 Maull, 'Germany and Japan', p. 91.

39 See Szabo, *Germany, Russia, and the Rise of Geo-Economics*; and Kundnani, *The Paradox of German Power*.

40 Jackson Janes, 'Germany's Policy Preoccupations', *AICGS Commentary*, 24 February 2015, http://www.aicgs.org/issue/germanys-policy-preoccupations/.

41 IISS, *The Military Balance 2015* (Abingdon: Routledge for the IISS, 2015), p. 484.

42 Kundnani, *The Paradox of German Power*, p. 80.

43 'Migrant Crisis: Migration to Europe Explained in Seven Charts', BBC News, 18 February 2016.

44 Sebastian Mallaby, 'Borderline Chaos: The EU's New Challenge', Council on Foreign Relations, 10 September 2015, http://www.cfr.org/europe/borderline-chaos-eus-new-challenge/p36981.

45 Matthias Matthijs and R. Daniel Kelemen, 'Europe Reborn: How to Save the European Union from Irrelevance', *Foreign Affairs*, vol. 94, no. 1, January/February 2015, pp. 96–107.

46 Thomas Mann, *Gesammelte Werke in XIII Bänden*, Band XIII (FrankFurt-am-Mainz: S. Fischer Verlag, 1974). With thanks to Professor Dr Ulrike C. Nikutta-Wasmuht at the Free University of Berlin for the translation.