



Reinvention of Europe Project

The euro debate in Germany: Towards political union?

By Ulrike Guérot, September 2012

Over the last couple of years the German debate over the euro crisis has been characterised as over-simplistic and tending to blame the debtor countries of Southern Europe for their own plight. Berlin's political response has been seen as reactive and lacking in the necessary vision to end the crisis. Now, however, there are clear signs that the debate over Europe is shifting focus. Angela Merkel's government is making an effort to move the debate away from being nationalist and populist, and towards being more constructive and ambitious. Mrs Merkel has now called for a political union and far-reaching steps towards integration, and has not excluded a new European Convention.¹ With Germany so clearly at the helm of the European Union's response to the crisis, the implications of such a shift for Europe as a whole are clearly huge.

Germany as euro victims

The headlines in tabloids like BILD-Zeitung may have been the most obvious examples of Germany's particularly negative debate over the euro, but they were not isolated cases. The crisis has often been portrayed as solely one of excessive debt, and even German mainstream media has liberally reproached Greece and the other troubled debtor nations on the ground of being Europe's most successful nation.² The debate has often been based on a very specific and introspective German understanding of economics, with limited space for the external voices or solutions that did not fit in with German economic wisdom. Despite this high-handedness, the German government has been accused of repeatedly only doing just enough to prevent the euro from collapse, failing to articulate a vision for Europe's future, and leaving the temporary fixing to the European Central Bank rather than providing policy solutions. Germans have also felt themselves the victims of the crisis, just as others have increasingly blamed Germany for the worsening economic situation.

Recent months therefore marked a shift from Germany's decades-old pro-European outlook, at the heart of integration and with public opinion (and all political parties in the era of West Germany) firmly behind 'Europe'. However, in the recent debate the benefits that had driven Germany's central role, such as the single market and political cooperation, were insufficient to convince the broader public that they had much to lose by the reversal of aspects of integration such as a euro breakup.³

1 Merkel forciert neuen Vertrag, Der Spiegel, 25.08.2012 <http://www.spiegel.de/politik/deutschland/kanzlerin-merkel-fordert-neuen-eu-vertrag-a-852054.html>

2 Robert Misik, Kollegen, ihr habt versagt!, die tageszeitung, 03.0.2012, <http://taz.de/Debatte-Medien-und-Merkel!/I96568/>

3 McKinsey-Studie: "Österreich profitiert am meisten vom Euro", Zaman, 17.01.2012
http://avusturya.zaman.com.tr/at/newsDetail_getNewsById.action?newsId=249928

This shift in public opinion can be seen in polling numbers, such as the 15% decline in those associating European integration with Germany's future between 2010 and 2011.⁴

This mistrust has been fuelled by economic elites' emphasis on specific German economic principles that insisted on austerity and stability and the narrative of the profligate South.⁵ This position reinforced German victimhood while failing to provide a vision for Europe beyond the slide-rules and spread-sheets of economists.⁶

The data on how this has impacted public opinion is confusing and conflicting. For instance 84% of Germans fear the worst of the crisis is still to come, but 64% believe the euro will survive.⁷ Citizens in Germany are undoubtedly trapped by complexity and the intertwining of multiple crises – in banking, political trust, markets and democracy – which are not easy to disentangle and resolve. However there are certain identifiable aspects of a narrative of betrayal over Europe that has resulted in a sense of victimhood that stands in marked contrast to the international perception of Germany as the biggest beneficiary of the euro and the single market.

Firstly, there is a fundamental sense of betrayal over the loss of the Deutschmark and the adoption of the euro in exchange for German re-unification. This, however, fails to account for the Deutschmark's role as an anchor currency in the European Monetary System (EMS) and the burden this presented for Germany at the time, which was the economic argument in favour of the euro, rather than reducing it to a simple constraint of history.

Secondly, most Germans associate the euro with higher prices following its introduction in 2002. Although there is empirical evidence that what is now portrayed as hard-wired German fears of inflation started at this moment,⁸ Germans have strong memories of previous episodes of 'inflation trauma' (most notably in the hyperinflation of the 1920s) and a strong emotional bond with an independent central bank and price stability.⁹ This extreme unease with inflation has been at its most acute at moments of the crisis where the ECB – in the absence of policy solutions – has provided liquidity to save the euro-system, as recently again after the ECB Council decisions of 2nd August, 2011.¹⁰

4 Dr. Thomas Petersen, *Gemeinsames Interesse an Europa in Gefahr*, Frankfurter Allgemeine Zeitung, 24. 01.2011
<http://www.faz.net/aktuell/politik/europaeische-union/allensbach-umfrage-gemeinsames-interesse-an-europa-in-gefahr-1579998.html>

5 Sebastian Dullien, Ulrike Guérot, *The long shadow of German Ordoliberalism*, ECFR Paper 49, February 2012,
http://www.ecfr.eu/page/-/ECFR49_GERMANY_BRIEF_AW.pdf

6 Interview with former Chancellor Helmut Kohl "Wir müssen wieder Zuversicht geben" *Internationale Politik* 5, September/Oktober 2011, S. 10-17 <https://zeitschrift-ip.dgap.org/de/ip-die-zeitschrift/archiv/jahrgang-2011/september-oktober/%E2%80%9Ewir-m%C3%BCssen-wieder-zuversicht-geben%E2%80%9C> and speech of former Chancellor Helmut Schmidt at the SPD-Party Congress in December 2011

7 70 Prozent mit Merkels Krisenpolitik zufrieden, *Handelsblatt*, 01.08.2012,
<http://www.handelsblatt.com/politik/deutschland//deutschland-trend-70-prozent-mit-Merkles-krisenpolitik-zufrieden/6950924.html>

8 Ana Polonyi, *The Spectre of Wheelbarrows*, *The European Magazine*, 06.12.2011, <http://theeuropean-magazine.com/411-polonyi-anna/453-germanys-fear-of-inflation>

9 Sebastian Dullien, Ulrike Guérot, *The long shadow of German Ordoliberalism* http://www.ecfr.eu/page/-/ECFR49_GERMANY_BRIEF_AW.pdf

10 Decision of the European Central Bank of 2 August 2012
(http://www.ecb.int/ecb/legal/pdf/l_21820120815en00190019.pdf) and interview with Rainer Brüderle, *Deutschlandfunk*, 01.08.2012 (http://www.dradio.de/dlf/sendungen/interview_dlf/1827673/)

Thirdly, in 2010 BILD-Zeitung began its campaign against the ‘lazy Greeks’, building upon the perception that industrious and hard-working Germans are being cheated out of their money by feckless Greeks.¹¹ Defenders of this argument praise Merkel for imposing austerity and tough economic reforms in the South, pointing out the huge amount of German financial support for Europe.¹² This argument, however, does not fully account for the economic interdependencies within the single market, the symbiotic relations between creditor and debtor nations and the problems created by trade asymmetries. In short, Germany considers itself as the solution rather than part of the structural problem that led to the crisis.¹³ Germany has its own recent experiences with structural reform, and believes that any relief on interest rates for the troubled nations would allow them to wriggle out of their own overdue reform programmes. However this neglects the benign (low interest rate) conditions under which Germany was able to pursue reforms, plus the ‘beggarthy-neighbour’ effects of Germany’s export-driven economy, based on an industrial base which hardly can be copied by other member states.¹⁴ It also overlooks the extent to which Germany has benefited from the euro crisis itself: an estimated €80 billion in reduced interest rates on its bonds alone.¹⁵

Fourthly, there has been no clear differentiation between cash and credit. Most Germans believe that hundreds of billions have already been spent. However, only some €55 billion have been spent in real terms on aid packages for Greece, the rest being credits and liabilities billion in the framework of the ESFS and ESM. Due to post-reunification spending on the former East Germany (around €100 billion over 20 years) that has achieved patchy results while building up debts for Western regions with their own infrastructure problems, many Germans also believe that such fiscal transfers are wasted money anyway.

Fifthly, the public debate in Germany has also largely dismissed any understanding of the differences between the crises in Greece, Spain, Italy and Ireland. This has led to the misdiagnosing of the situation in Spain (where regulatory imperfections led to a vast real estate bubble) and Ireland (which also had a real estate bubble as well as a banking crisis and had to rescue its banks) as simple overspending and jog trot like in Greece, for instance.

Lastly, German political and industrial elites have failed to make the case for how Germany’s mainly export-driven economy benefits from the single market. Whereas CEOs of Germany’s largest

11 Hugo Müller-Vogg, Ohne Fleiß kein Preis, BILD, 15. 08. 2012

12 Josef Joffe, I come to praise Angela Merkel, not to bury her, Financial Times, 19.06.2012,
<http://www.ft.com/intl/cms/s/0/a438a8a6-b8ab-11e1-a2d6-00144feabdc0.html#axzz24BvZPuDM>

13 Interview with Jean-Claude Juncker, Süddeutsche Zeitung, 30. 07.2012
http://www.gouvernement.lu/salle_presse/interviews/2012/07-juillet/30-juncker/index.html

14 Martin Wolf, Eurozone plays ‘beggar my neighbour’, Financial Times, 18.05.2010,
<http://www.ft.com/intl/cms/s/0/58ebec36-62aa-11df-b1d1-00144feab49a.html#axzz25TeEzN3U>

15 Ulrike Guérot, Berlin (and New York view): Sarrazin in America, ECFR’s blog, 29.05.2012
http://ecfr.eu/blog/entry/berlin_and_new_york_view_sarrazin_in_america

industries – though generally pro-euro¹⁶ – remained largely silent, German small and medium enterprises have tended to be hostile to the current euro-rescue measures.¹⁷

These aspects have, at least partially, produced a distorted, anxious and ideologically rather narrow economic debate with Germany self-cast as the victim rather than the beneficiary of European integration. Germans have felt themselves forced to accept unpalatable solutions, rather than seeing themselves as the country that can resolve the crisis and shape the future of Europe.

Political Union

Although this narrative has dominated the debate for two years, there are signs that things are changing, not least in the softening of the stance of BILD-Zeitung. The recent warning about the costs of a euro breakup from the German foreign minister, Guido Westerwelle,¹⁸ can be seen as part of a perceptible effort by policy makers to strengthen the importance of the EU in the German debate, and move away from a narrow picture of Southern indebtedness. The increasingly historical and political contextualising of the debate has also moved towards a discussion of the future of the EU and its democratic system, and what in Germany is termed ‘political union’.

‘Political union’ as a notion often remains vague and non-defined – much to the puzzlement of foreign observers of the discussion. But in its very essence, in a German mind-set, it means that any kind of fiscal federalism or debt mutualisation would erode sovereign budget rights of the Bundestag. But following the principle of “no taxation without representation”, this can be solved with two very different outcomes. The first option is a permanent sort of veto-position of the Bundestag in the European system (*de facto* a reality in the past two years of the crisis). The second option is to develop a proper collective decision making system on the European level, in order to compensate for the erosion of budget sovereignty on the national level.

But this would require a different European Parliament; based on the principle on “one-man-one-vote” instead of a proportionally digressive system¹⁹, as only a “general and equal election”²⁰ is considered as being democratic in the eyes of the Constitutional Court in Karlsruhe. Another idea is to redesign the European Parliament and add a strong Eurozone component, either by creating a ‘Eurobond-parliament’²¹ or in the form of a second chamber composed of national parliaments.²²

16 In July 2011, 47 French and German CEO published an appeal for Euro-rescue but this was the only very visible action that DAX industries came up with: Karl-Heinz Büschemann, Deutsche Wirtschaft: Anzeigenkampagne - Bitte, bitte, rettet doch den Euro, Süddeutsche Zeitung, 20.06.2011 <http://www.sueddeutsche.de/wirtschaft/deutsche-wirtschaft-anzeigenkampagne-bitte-bitte-rettet-doch-den-euro-1.1110669>

17 Lutz Reiche, Im Mittelstand geht die Angst um, manager magazine online, 06.06.2012, <http://www.manager-magazin.de/unternehmen/artikel/0,2828,837170,00.html>

18 Westerwelle und Balten warnen vor Spaltung Europas, Welt Online, 23.08.2012, <http://www.welt.de/politik/ausland/article108754857/Westerwelle-und-Balten-warnen-vor-Spaltung-Europas.html>

19 The fact that the EP is not based on the “one-man-one-vote” principle was the main reason why the Karlsruhe Court in its ruling on the Lisbon Treaty came to the conclusion that the EP is “not democratic”, BVerfG, 2 BvE 2/08 vom 30.6.2009, Absatz-Nr. 280, http://www.bverfg.de/entscheidungen/es20090630_2bve000208.html.

20 Speech of German Finance Minister Wolfgang Schäuble, at the „Karlspreis“ award ceremony, 17.05.2012: <http://www.wolfgang-schaeuble.de/index.php?id=30&textid=1524&page=1>

21 Ulrike Guérot, Die Chance der Euro-Krise, Deutschlandradio Kultur, 07.09.2011, <http://www.dradio.de/dkultur/sendungen/politischesfeuilleton/1548216/> ; Interview with Volker Kauder, ‘Europe is Our Future’, Der Spiegel, 20.08.2012, <http://www.spiegel.de/international/europe/interview-with-german-politician-volker-kauder-on-euro-crisis-a-850980.html>

22 For both a) and b) see the speech of Wolfgang Schäuble, at the „Karlspreis“ award ceremony, 17.05.2012

German lawyers for example have introduced the notion of a “*Parlamentsverbund*”²³ into the debate, a network of national parliaments which would constitute a European second chamber. However, the most important thing to understand about the German debate about ‘political union’ is its essentially *parliamentary character*.

The key question that is emerging in Germany today is thus how European democracy can be organised around the euro, and which state-like elements the EU needs to adopt to do this job effectively. As the euro crisis forces the Eurozone closer towards *de facto* debt mutualisation – although this is not a German policy intention - the German debate is now focused on three thorny issues: 1. Such mutualisation is not covered by EU treaties in their existing state (‘no bail out’); 2. Changes to these treaties would require a change of the *Grundgesetz* (Basic Law); and 3. That there is no valid parliamentary legitimacy at the European level for any kind of fiscal federalism.

There is a growing consensus that Maastricht was an error in the first place²⁴, combined with an increasing criticisms of Helmut Kohl “who got it wrong on the euro”.²⁵ But the discussion then splits into those - the vast majority not only of German politicians, but also of its legal and economic establishment – who argue that pushing for more political integration would overstretch not only the political systems of the EU countries, but also the (supranational) ambitions of the people of Europe, calling the political feasibility of Maastricht into question²⁶; and those who argue for the completion of the Maastricht treaty through improved economic governance leading to some sort of fiscal federalism, and banking union, embedded in a ‘political union’.²⁷

This reflects both an evolution, but also an increasing polarization of the German euro debate in Germany. Hence, raising the concept of political union also carries the risk of raising the political and constitutional bar so high so as to effectively torpedo any euro rescue strategies and concrete and pragmatic next steps, such as the launch of a banking union.²⁸

A minority now argues for more political and fiscal integration, called the ‘more Europe’ camp, and they are often referred to as ‘Euro-romanticists’ by those who argue that true federalism is unwanted by the people of Germany and Europe. The ‘Euro-pragmatists’²⁹ are not anti-EU or anti-

23 Armin Hatje, Ingo Brinker, *Europarecht*, 39. Jahrgang 2004, Heft 2, März-April:

http://www.europarecht.nomos.de/fileadmin/eur/doc/EuR_04_02.pdf

24 Thilo Sarrazin, *Geburtsfehler Maastricht*, *Frankfurter Allgemeine Zeitung*, 17.07.2012,

<http://www.faz.net/aktuell/feuilleton/debatten/europas-zukunft/zukunft-europas-geburtsfehler-maastricht-11822292.html>

25 Gottfried Hahn, *Ist Helmut Kohl schuld an der Euro-Krise?*, *Focus Magazin*, 01.09.2012

26 Otmar Issing, *Europe’s political union is an idea worthy of satire*, *Financial Times*, 29.07.2012,

<http://www.ft.com/intl/cms/s/0/d5efc38a-d64b-11e1-b547-00144feabdc0.html#axzz25PQUY02J>

27 Matthias Naß, Heinrich Wiefing, *Hilft jetzt noch mehr Europa?* *Die Zeit*, 21.06.2012, [http://www.zeit.de/2012/26/01-](http://www.zeit.de/2012/26/01-Europa-Pro-Contra)

Europa-Pro-Contra; It is also important to note that this is not a new German request: Germany demanded a ‘political union’ since the 1990s, see for example: Udo Margedant, *Politische Union*, *Handlexikon der Europäischen Union*, Mickel/Bergmann, OMNIA Verlag, 3. Edition, Stuttgart 2005,

http://www.europarl.europa.eu/brussels/website/media/Lexikon/Pdf/Politische_Union.pdf

28 This criticism was voiced by the Polish Minister of Foreign Affairs Radoslaw Sikorski in his address at the Conference of Heads of Missions of Germany in Berlin, 27.08.2012,

<http://www.msz.gov.pl/gallery/BRP/201208/20120827BERLIN/MRSBerlin27082012.pdf>. For the German point of view

see Hans Werner Sinn, *Why Berlin Is Balking on a Bailout*, *The New York Times*, 12.06.2012,

<http://www.nytimes.com/2012/06/13/opinion/germany-cant-fix-the-euro-crisis.html>

29 Ulrike Guérot, *Wieviel Europa darf es sein? Überlegungen zu Deutschlands Rolle im Europa des 21. Jahrhunderts.*, ECFR Memo, Oktober 2010, http://ecfr.eu/uploads/files/ecfr_memo_guerot_deutschland_in_europa.pdf

euro, but set their rejection of debt mutualisation and Eurobonds as the red line for the future fiscal and political development of the EU.

The German exit strategy for the euro crisis has so far tallied with this latter view, restricting responses to non-permanent and conditional financial aid for the troubled Eurozone countries. Durably binding, irreversible and ultimately opaque fiscal federalism (ie Eurobonds, a redemption fund or a banking license) has been rejected: “The implicit transfer of taxpayer’s money would be a violation of the principle of no taxation without representation.”³⁰ This is underpinned by the fear that agreeing to such would lead to the loss of pro-reform leverage, moral hazard, and the prospect of the German tax payer being ‘cheated’ by profligate countries. Temporary aid for other EU states through the EFSF/ ESM is (just) accepted by public opinion in Germany; durable and irreversible engagement into fiscal federalism is not. This is best expressed by Angela Merkel’s statement before June’s EU Council that Eurobonds would not come in her lifetime.

The constitutional dimension

In Germany the Constitutional Court (*Bundesverfassungsgericht*) at Karlsruhe is the gatekeeper of the ‘more-Europe’ argument (often described as ‘constitutional nationalism’ outside Germany). The court has to weight up the legality of European integration steps that affect German sovereignty at large. The authority of the Court in the German political system since 1949 stems from history, with the intention that law should always take precedence over the “undemocratic evolution of policy”. For many this is precisely what is happening in the euro crisis.

Since 2010 and the first bailout measures for Greece, the various measures to deal with the crisis (especially the EFSF/ESM) have been seen as an attack on the ‘no bail out’ clause of the Maastricht treaty and thus on the independence of the ECB and its mission of price stability. The German reaction has been to defend these treaties³¹ rather than point out their inherent flaws (as monetary union requires some sort of fiscal entity). Measures that were widely promoted as economically necessary to save the euro (such as Eurobonds or a banking license)³² turned out to be politically and constitutionally infeasible in Germany. The decision by the June 2012 Council³³ allowing the ESM to stabilise banks directly is seen as ‘unconstitutional’ in Germany, as it erodes German budget sovereignty by giving money to banks of other countries beyond German control.

Among the complaints lodged with the Court is that the ESM requires total German guarantees that are too high a sum for only one Bundestag to vote on, as they are a generational commitment that future generations cannot undo.

Since June 2012, over 20 complaints have been lodged in Karlsruhe, all arguing that the existing constitutional space for moves towards fiscal federalism is exhausted and that the ESM in its current form is already illegal. Whatever the Court decides in its ruling on 12th September 2012, the fact that it has taken so long for an interlocutory injunction (normally decided within a couple of days) reinforces the complicated constitutional questions that underpin the German debate. This has led to

30 Otmar Issing, Europe’s political union is an idea worthy of satire, Financial Times, 29.07.2012

31 Thilo Sarrazin, Geburtsfehler Maastricht, Frankfurter Allgemeine Zeitung, 17.07.2012

32 Wolfgang Münchau, Eurobonds and fiscal union are the only way out, Financial Times, 18.09.2011,
<http://www.ft.com/intl/cms/s/0/9e3d5db2-dfca-11e0-b1db-00144feabdc0.html>

33 Quentin Peel, German Lawsuit challenges rescue fund, Financial Times, 13.08.2012,
http://issuu.com/thomaspringletd/docs/german_lawsuit_challenges_rescue_fund_-_ft.com

the argument that the euro crisis requires politicians to take the reins rather than lawyers, especially among those who suggest holding a referendum based on Article 146 GG (which provided for the abandoning of the preliminary Basic Law after reunification, but was never used in 1989 for fear of opening up a constitutional Pandora's Box). There seems to be no possible systemic shift towards 'more Europe' without systemic or institutional breakdown first that would allow the German constitution to accept any relevant European treaty change.

Until the question what is *constitutionally allowed* or *politically desirable* is ultimately answered by Karlsruhe or by politics (eventually by a referendum), the German debate is therefore structurally stuck in a setting where (after exhausting legal grey areas and stretching public opinion to breaking point) the government *de facto* leaves rescue actions to the ECB, allowing the ECB to sneak towards monetisation of debt in default of a clear commitment and political solutions. In German eyes, the question of political union needs to be solved prior to debt mutualisation. Many believe that the lack of a European *demos*³⁴ and lack of political will to abandon sovereignty (especially budget sovereignty) means it never can be, especially given the German emphasis on the parliamentary underpinning such a European political union would need to have.

Where next?

The central questions in the German euro discussion today are thus whether this vicious circle of a deficient European political system that does not allow further moves towards fiscal integration can be breached; whether enough political will can be gathered to do so; and whether German public opinion, fed up with the euro crisis,³⁵ will be ready and able to follow bold legal and political solutions towards political union, should policy makers finally put them on offer – or which incremental steps can be found instead.

With the next elections scheduled for September 2013, the German political landscape, as well as public opinion, seems split into a rough 30/70 division on decisive moves towards fiscal federalism, debt mutualisation and political union, with approx. 2/3 of Germans being against the latter.

Recent polls suggest that German public opinion remains reluctant to go for 'more Europe', with one suggesting that 51% would prefer Germany to leave the Eurozone.³⁶ Overall, 70% of Germans are 'fed up' with the euro crisis,³⁷ 77% are against 'more integration' (measured in initiatives such as the direct election of a European president),³⁸ and 70% do not want a 'United States of Europe'. This

34 Michael Stürmer, Die Euro-Not kennt kein Gebot, Deutschlandfunk, 04.08.2012

<http://www.dradio.de/dlf/sendungen/themenderwoche/1830488/>

35 Mehrheit der Deutschen hält weitere Rettungspakete für sinnlos, Der Spiegel, 05.07.2012,

<http://www.spiegel.de/politik/deutschland/umfrage-deutsche-resignieren-im-kampf-um-euro-rettung-a-842785.html>

36 Neue Umfrage: Merkel verliert Rückhalt in ihrer Euro-Politik, BILD, 29.07.2012 <http://www.bild.de/politik/inland/euro-krise/kanzlerin-angela-merkel-verliert-rueckhalt-in-euro-politik-yougov-umfrage-25388420.bild.html>

37 Umfrage zur Euro-Krise: Mehrheit der Deutschen hält weitere Rettungspakete für sinnlos, Der Spiegel, 05.07.2012,

<http://www.spiegel.de/politik/deutschland/unfrage-deutsche-resignieren-im-kampf-um-euro-rettung-a-842785.html> ;

Stern-Umfrage: Deutsche sind europafeindlich – unter Vorbehalt, Stern, 04.07.2012

<http://www.stern.de/wirtschaft/news/stern-umfrage-deutsche-sind-europafreundlich-unter-vorbehalt-1850777.html>

38 Matthias Weber, Stern-Umfrage: Drei von vier Deutschen gegen Vereinigte Staaten von Europa – Auch EU-Präsident wird abgelehnt – Mehrheit sieht jedoch Vorteile von EU und Euro, news aktuell presseportal, 04.07.2012,

<http://www.presseportal.de/pm/6329/2282899/stern-umfrage-frei-von-vier-deutschen-gegen-vereinigte-staaten-von-europa-auch-eu-praesident-wird>; Vereinigte Staaten von Europa?, Infratest dimap, <http://www.infratest-dimap.de/umfragen-analysen/bundesweit/umfragen/aktuell/vereinigte-staaten-von-europa/>

suggests limited room for manoeuvre towards further integration, despite Guido Westerwelle setting up a working group on the future of European integration, which came up with far-reaching proposals.³⁹

The election campaign is likely to focus on the future of Europe and the German role in it and to become the first real “European election” in Germany. The political landscape is also split on the question of a referendum, a discussion which has gained a little more momentum⁴⁰ with one of the potential candidates for the chancellorship of the Social Democrats, Sigmar Gabriel, calling for a ‘strategic change’ in the German euro discussion in early August,⁴¹ based on prominent intellectual support for such a procedure by German philosopher, Jürgen Habermas.⁴² Some of those arguing against ‘more Europe’ (notably by the CSU) also call for a referendum as a blocking tactic.⁴³

Whereas the Liberals (FDP) and the Bavarian CSU rigorously exclude fiscal federalism and tend to lean against political union, the SPD and the Greens are more receptive to both, and the CDU is torn both ways. No party, however, is homogenous, and within the Liberals a new division seems to be opening between those who want to allow a banking union and a stronger role for the ECB and those who do not.⁴⁴ This is important as the Liberals may play after the elections the role of kingmaker in the positioning of the German government on the ‘yes’ or ‘no’ to a banking union.

These divisions and debates suggest that Germany is beginning to have its first real, broad and open discussion about Europe and the fiscal, legal and political price it is ready to pay for it. The outcome of the 2013 elections will determine the stance of the new German government towards on the Euro and will thus be crucial for the rest of Europe.

It is uncertain whether a Eurosceptic party will form to take advantage of these sentiments. The Pirate Party has shown that there is space for a new force in German politics, and developments such as a possible Greek exit may provide the conditions for such a party to flourish (or Eurosceptic pressures within existing parties: within the CDU a new ‘Berlin Circle’ of conservative MPs who lobby against debt mutualisation has already formed).

Should there be a Greek exit or similar significant development it is difficult to predict who would be able to seize the political initiative in Germany. It may be that those arguing that an unwilling and incapable Greece had to leave the euro will initially gain the most political capital (Horst Seehofer has

39 See Time for a debate on Europe’s future, Federal Foreign Office, 20.06.2012, http://www.auswaertiges-amt.de/EN/Europa/Aktuell/120620_Zwischenbericht_Zukunftsguppe.html?nn=479786

40 Melissa Eddy, Support Grows in Germany for Vote on Giving Up Power to European Bloc, The New York Times, 18.08.2012, <http://www.nytimes.com/2012/08/19/world/europe/referendum-on-europe-gains-support-in-germany.html>

41 Holger Schmale, SPD vor Strategiewechsel in der Euro-Debatte, Frankfurter Rundschau, 06.08.2012, <http://www.fr-online.de/schuldenkrise/loesung-der-eurokrise-spd-vor-strategiewechsel-in-der-euro-debatte,1471908,16809790.html>

42 Peter Bofinger, Jürgen Habermas, Julian Nida-Rümelin, Einspruch gegen die Fassadendemokratie, Frankfurter Allgemeine Zeitung, 03.08.2012, <http://www.faz.net/aktuell/feuilleton/kurswechsel-fuer-europa-einspruch-gegen-die-fassadendemokratie-11842820.html>

43 Griechenland-Hilfe: Horst Seehofer fordert Volksbefragung zur Euro-Rettung, Der Spiegel, 16.06.2012, <http://www.spiegel.de/politik/deutschland/euro-rettung-seehofer-fordert-volksbefragung-a-839308.html>

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called for the sacrifice of a 'pawn' in order to set an example), but the impact of further developments that might follow this are too uncertain to allow firm predictions.

Conclusion

The difficult German debate about Europe over the last two years has led to the paradox of Germany being simultaneously the country at the helm of the future of Europe and also the country seemingly very reluctant to engage in bold steps of euro rescue. Now, however, there are signs that a genuine debate over Europe is emerging in Germany for the first time, allowing the German government to play an active role in shaping the future of the euro and the EU.

There remain many challenges, not least a sceptical public and considerable constitutional and legal hurdles, to a more constructive and pro-active solutions for the euro-crisis than the "muddling-through" approach that has characterized the German euro-crisis strategy in the last years. But somewhat surprisingly the German debate on 'political union' is forward looking and in many aspects ahead of similar debates across Europe.

Ulrike Guérot, September 2012

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