Franco-German questions on Europe

Macron's steel, Merkel's twilight

by David Marsh in Berlin

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The longest-running conundrum in the European Union is: 'Who runs Europe – France or Germany?' The next few weeks will see further questions – but no ultimate answers. Britain is on its way to leaving the EU, before or after the May European Parliament elections. This follows nearly three years of tortuous, ill-directed and often chaotic manoeuvring under luckless UK Prime Minister Theresa May.

The UK's inability to make up its collective mind on Brexit has undoubtedly damaged Britain's standing in the world. But not irredeemably. In some ways, the constellation of 50 years ago – when France and Germany jointly decided, for different reasons, that they wished to bring the UK inside the then European Community – is repeating itself, as the process goes into reverse.

France and Germany are preparing in different fashions and with different expectations for a new European chapter in which the continent's two leading economies must come to terms with each other without the moderation of a third major economic and strategic player.

Trepidation at being 'left alone' is much stronger on the German side, where economists and politicians fear possible German exposure to French statism, protectionism and desire to raid Germany's coveted savings. By contrast, the most evident French reaction is relief that the British are leaving a 'European project' whose goal – full-scale integration – they could never support.

Differences between French President Emmanuel Macron, much less forgiving towards May's weaknesses, and a more compliant Chancellor Angela Merkel surfaced publicly at the last Brussels summit on 11 April. Yet beneath French defiance lies some foreboding – seen most clearly in the lengthy yet so far vain attempts to wrest sizeable German concessions on reforming economic and monetary union – on how France will deal in future with its eastern neighbour.

In 1968-69, France abandoned a decade-long blockade of belated British attempts to join the European Community. All-too-evident flexing of West German postwar economic muscles encouraged President Charles de Gaulle's successor, Georges Pompidou, to seek the comfort of British adherence.

In the ensuing half-century, a now-reunited Germany has built up still more economic weight – as well as much political and social vulnerability. After a decade of expansion and amid near full-employment, Germany in 2019 is weathering unaccustomedly weak economic growth. Dealing with Germany during a fallow period, as France may soon recognise, is still more difficult than at a time of economic buoyancy. German brittleness will become still more acute in the sensitive 12 months ahead in which Merkel prepares to relinquish her 14-year chancellorship.

Two issues stand out. One centres on the succession of Mario Draghi as president of the European Central Bank. In exchange for a Frenchman (Michel Barnier) at the helm of the European Commission, Macron seems willing to allow Jens Weidmann, the Bundesbank president, to take over, reversing France's previous antipathy to German ECB leadership. With the ECB now wedded to easy money policies at least for the next year, and with a built-in ECB council majority against rate tightening, the French appear to have decided that Weidmann will have little room for hawkishness. Expectation of an emasculated Weidmann may well resonate negatively in Berlin and Frankfurt.

The second question surrounds the future of Deutsche Bank, which over the last 30 years has fallen spectacularly from its previous position as by far Europe's best capitalised bank. German Finance Minister Olaf Scholz (strikingly, without overt backing from Merkel) is pressing for a takeover of the No.2 bank, Commerzbank, in pursuit of a 'national champion'. Trade unions fearing 20,000-30,000 job losses, the stock market, large factions of the banks' managements and many politicians all oppose the plan.

The two banks – whose share prices have fallen 93% and 97% respectively from their pre-2008 financial crisis highs – have a combined market capitalisation of €29bn, against €83bn for Spain's Santander, €69bn for France's BNP Paribas, €52bn for the Netherlands' ING Group, and €32bn for Italy's Unicredit. At least two of these institutions are contenders to buy Commerzbank.

The support of the government, which owns 15.6% of Commerzbank, appears to counter some key precepts of European banking union, which Germany otherwise says it supports. If Berlin maintains political backing for the deal – amid increasing calls for it to be abandoned – it will face mounting protests from France and other European partners claiming that Berlin should invite European bids for Commerzbank or for Deutsche Bank itself.

Banking could be the ultimate battleground where Germany must decide between national and European priorities. If the challenge intensifies, Merkel in her twilight phase as chancellor will find Macron a steely adversary.

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