
Special report:
Germany

Europe's reluctant hegemon

Germany, now the dominant country in Europe, needs to rethink the way it sees itself and the world, says Zanny Minton Beddoes

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IT IS NOT often that a single country dominates the final of Europe's Champions League, but on May 25th more than 360m people around the world watched Bayern Munich score in the 89th minute to beat Borussia Dortmund by two goals to one at London's Wembley Stadium. The symbolism was powerful. For the first time in its 58-year history, the final of Europe's most important football contest was a wholly German affair.



From the football pitch to politics to the economy, Germany has become Europe's most powerful country. Described by this newspaper as the sick man of Europe in 1999, Germany now appears to have the continent's strongest as well as its biggest economy. It accounts for a fifth of the European Union's output and a quarter of its exports. From Volkswagen to SAP, Germany's big companies are world-renowned. Many smaller German firms are global champions in niche markets such as tunnel-boring machines and industrial cleaners.

Germany's jobless rate, at 5.4% (using standardised OECD statistics), is less than half Europe's average. Youth unemployment, a scourge throughout much of the rest of the continent, is at a 20-year low in Germany. The country's budget is balanced, government debt is falling and long-term bond yields are the lowest in Europe. It is the largest creditor country in the euro zone, and as chief paymaster it has the biggest clout in determining the single currency's future.

The weakness of other heavyweights has added to Germany's heft. Britain, outside the euro and distracted by a domestic debate about its EU membership, has lost influence. The Franco-German tandem at the core of post-war European integration has become lopsided. Relations between Berlin and Paris are unusually poor, with some French politicians decrying the "selfish intransigence" in the euro crisis of Germany's chancellor, Angela Merkel. The economic gap between Germany and France is wider than it has ever been. France's economy is stagnant,

statist and uncompetitive and urgently needs reform.

As a result, power within Europe has shifted sharply towards Berlin. Mrs Merkel is widely seen as the continent's most important politician. In Beijing or Washington, DC, the question: "Where is Europe going?" has become synonymous with: "What do the Germans want?"

Bureaucrats in Brussels talk ruefully about Berlin becoming the capital of Europe. "When the German position changes on an issue, the kaleidoscope shifts as other countries line up behind them," says one official. "That's unprecedented in the history of the EU."

German predominance is not all-encompassing. In foreign affairs and military matters, for instance, France and Britain still play a much bigger role. But across a large swathe of European policy, Germany has become much more than a first among equals. And judging by France's weakness, Britain's ambivalence and southern Europe's debt problems, for the next few years Europe's future will continue to be disproportionately "Made in Germany".

Outside Germany this dominance has become the subject of lively debate. The "German question"—about the role of a country too big for Europe and too small for the world, as Henry Kissinger famously put it—is back on the agenda. Many fret that Germany is becoming too bossy. Newspaper cartoons in southern Europe show Mrs Merkel with a Hitler moustache. Southern European politicians say Germany is selfishly wielding its clout to impose austerity policies that will wreck their part of Europe in order to protect German taxpayers.

Others are worried that Germany is being too passive. Radek Sikorski, Poland's foreign minister, fears German inaction more than German power. On this view, Germany does not want, and cannot exercise, the leadership required of a predominant power. In the language of political scientists, it lacks the capacity to act as Europe's hegemon—a leading country that takes responsibility for the stability of an international system as a whole, as America does for the world. William Paterson of Aston University in Birmingham has called Germany a "reluctant hegemon".

Within Germany this debate is almost wholly absent. Germans are deeply ambivalent about their growing role in Europe, and generally uncomfortable talking about leadership. The mere vocabulary is fraught with historical echoes. The German word for leader is *Führer*, the title adopted by Adolf Hitler. Mention the word "hegemon", and German politicians flinch. Mrs Merkel recently described the concept as "totally foreign to me". Strategic thinking is strikingly absent anywhere in government. Joschka Fischer, a former foreign minister, laments that: "Germans have never had a serious conversation about the destiny of a reunited Germany in Europe."

This is unlikely to change soon, so it is not easy to assess where a German-dominated Europe may be heading. This special report will try to provide some answers by looking at the forces that will affect German priorities.

The most obvious short-term influence is the general election due on September 22nd. Mrs

Merkel is widely expected to win a third term as chancellor. She is personally popular and her party, the Christian Democratic Union (CDU), together with its Bavarian wing, the Christian Social Union (CSU), is far ahead in the polls (see [article \(http://www.economist.com/news/special-report/21579141-guide-germanys-federal-elections-colours-rainbow\)](http://www.economist.com/news/special-report/21579141-guide-germanys-federal-elections-colours-rainbow)). But it is not strong enough to govern alone, and support for its current coalition partner, the Free Democratic Party (FDP), has slumped. Mrs Merkel might end up governing in a grand coalition with the main opposition party, the Social Democratic Party (SPD). And given Germany's complicated system of proportional representation, it is not inconceivable that Mrs Merkel will be defeated by a coalition of the SPD and the Green party.

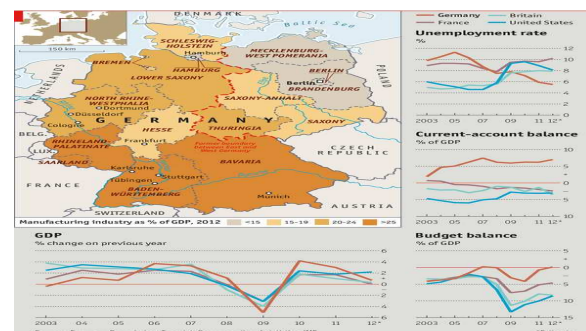
Election politics has plainly influenced Germany's recent reactions to the euro crisis. The country's tough stance on bankrupt Cyprus, for instance, reflected the need to neutralise objections by opposition parties to bailing out a place that had grown fat on laundered Russian money. But whatever its outcome, the election is unlikely to prompt a sudden shift in Germany's policy towards the euro or the EU: German attitudes to Europe and to leadership run deeper than party politics.

Where the past is ever-present

The most important place to look for explanations is history. The shadows of the past weigh on Germany more heavily, and in more complicated ways, than on any other big country. Those shadows can be divided into three broad groups.

First, Germany has no historical experience of successful international leadership. For centuries the German-speaking people lived in a collection of small, semi-independent states. The country's two attempts at projecting power since its unification in 1871, by imperial Germany under the Kaiser and by the Third Reich, were disastrous. Germany's economic miracle after the second world war, the *Wirtschaftswunder*, happened when it was divided in two and its old capital, Berlin, was occupied by foreign armies. The former West Germany was a semi-sovereign political pygmy, protected by America's military might and with barely any foreign policy of its own. As a result, the country has no machinery or tradition of strategic thinking, and most Germans are loth to see their government take the lead. Germany's preferred self-image is as a bigger version of Switzerland: economically successful but politically modest.

Germany's second inheritance from history is a deep-seated, if inchoate, belief in European integration. After the second world war Europe offered West Germany a route to reconciliation and redemption as well as prosperity. In the preamble to its constitution it is described as an "equal partner in a united Europe". In the decentralised domestic political structure imposed on Germany by the Allies, power is divided between local, state and federal government. Germans are used to federalism.



History's third legacy is a craving for stability, not least because Germans have not had much of it. The 68 years since the end of the second world war have been the longest continuous period of peace in their patch of Europe since the 16th century. In the past 100 years Germans have been through hyperinflation and several periods of economic collapse. The national obsession with price stability has become a stereotype, but it is true nonetheless. A recent study showed that Germans are more worried about inflation than about contracting a life-threatening disease such as cancer. They attach huge importance to rules and institutions that promote stability and keep politicians in check. A uniquely German branch of economics that emphasises rules, called *Ordnungspolitik*, sets the intellectual tone. Guardians of stability, from the Constitutional Court to the central bank, wield great influence.

The euro crisis is problematic for German politicians because it brings these powerful historical forces—reluctance to lead, desire for European integration and fear of instability—into conflict. Germans are instinctively pro-European. According to a recent Pew poll, 60% of them have a favourable view of the EU, far more than in Britain, France or Spain. Germany has no big Eurosceptic political movement. (A recently formed party, Alternative für Deutschland, does advocate a euro break-up, but support for it is in the low single digits.) Another new poll suggests that almost seven out of ten Germans support the single currency, and the share is rising rather than falling. The government might therefore be expected to act boldly to secure the single currency's future. But German europhilia is balanced by fears of instability. Mrs Merkel's handling of the crisis gets high marks at home because she is seen as having “protected” her countrymen from the mess elsewhere.

Count us out

Germany's confused attitude is compounded by its reluctance to lead. German politicians in general, and Mrs Merkel in particular, have pandered to Germans' small-country mentality and their belief that responsibility for fixing the euro lies elsewhere. The one country with the capacity to lay out a strategic vision for the single currency's future is unwilling to do so.

Many Germans will say that Mrs Merkel does have a vision for Europe's economic revival, which revolves around increased competitiveness; and that Germany is capable of acting boldly. As an example, they might point to its *Energiewende*, a dramatic switch to sustainable energy and a commitment to turning off its nuclear reactors by 2022.

This special report will argue that, in both cases, German leadership is wanting. On the euro, Germany's competitiveness agenda is insufficient, and based on a distorted reading of the country's own history. And Germany's energy policy is less an example of bold leadership than of an ill-planned unilateralism that illustrates the country's deep reluctance to think strategically about international challenges. But the report will



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also show that for all its obsession with rules, Germany is capable of pragmatism when needed. It was Germany, along with France, which first flouted the EU's Maastricht deficit rules in 2003.

Even more important, Germany is changing fast. Its population is the oldest in Europe, and the number of people of working age is about to shrink sharply. A widespread shortage of workers will drive Germany to welcome more immigrants and encourage women to spend more time on paid work, which will profoundly affect its economy and its society. In time, it will also have a big impact on the way it conducts itself in the European Union. The new Europe will be "Made in Germany" not only because of the changes Germany wants others to adopt, but also because it will need to remake itself.

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