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From Meseberg to Nowhere?
A Franco-German Impetus for the Eurozone

Eileen KELLER

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Abstract

This study analyses the joint efforts by France and Germany to bring about a comprehensive reform of the European currency union. These efforts culminated in the joint Meseberg Declaration adopted in June 2018. The article contextualises these efforts with respect to the reforms realised so far and the different reform options at hand. Besides questions of economic viability and institutional deficits, the article tackles issues of political feasibility.

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Introduction

"From Meseberg to nowhere"[1] was the prognosis given by Werner Mussler, economic correspondent for the Frankfurter Allgemeine Zeitung in Brussels. Commenting on the outlook for the joint declaration by the French President and German Chancellor on 19 June, following protracted negotiations at the German Government's official guest house at Schloss Meseberg, near Berlin, the journalist was critical of both the compromises it contained on strengthening the euro area and the chances of these ever being implemented.

There is no question that the negotiations on the development of the euro area come at a difficult time. However, there are still good grounds for reaching a different conclusion. Both valid economic and political reasons can be found for the reforms proposed in the declaration, the details of which have yet to be developed. Anyone broaching the subject realistically knows that negotiations on economic and monetary union have always been challenging, due to differing concepts of economic policy and divergent economic needs and interests. At the same time, the two figures responsible for the Meseberg Declaration are both exceptional political personalities whom have shown in the past that they can cope with difficult negotiations, and can achieve remarkable results – on condition that Angela Merkel remains in office.

This analysis will deal with the content and context of the Meseberg Declaration, the aim of which is "Renewing Europe's promises of security and prosperity". Firstly, there will be a summary of the weaknesses of the Economic and Monetary Union (EMU), previous reforms and other reform options. Secondly, French and German perspectives on the common currency and their development since the euro area crisis will be described. A further section will analyse the origins of the Meseberg Declaration, its contents and the prospects of it being realised.

1. W. Mussler, "Eurogipfel-Kommentar: Von Meseberg nach nirgendwo", retrieved 2 July 2018.

Initial situation

It took less than ten years until, in 2009, the fears of those who doubted the chances of success for the EMU (due to the heterogeneity of its members) were realised; and some of the hopes of its advocates proven as being too optimistic. Although there were specific reasons for the destabilisation in those countries supported during the crisis, they were ultimately the result of divergent fiscal, regulatory and price developments within the euro area – and the deficits of an institutional architecture unable to adequately compensate for such divergences.

Despite endeavours to achieve convergence before monetary union, which had aimed to diminish disparities in macroeconomic conditions, particularly regarding price stability and sovereign debt, the euro area countries had already de facto diverged. Changed economic conditions arising from the common currency led to contrasting adaptive responses in individual countries. In southern Europe debt rose alongside sinking interest rates and competitiveness was damaged by inflationary tendencies, which could no longer be offset through devaluation, a mechanism often used in the past. In other countries, notably Germany, competitiveness increased through structural reforms and pricing components such as moderate wage increases.[2]

Members of a currency union have less room to manoeuvre when it comes to individual economic policy options, because they are bound by a single monetary policy which they cannot modify to suit their own macroeconomic conditions. For this reason, macroeconomic divergence within a currency union has a detrimental effect on its functioning.

The crisis, which began in Greece and ended up threatening the stability of the entire euro area, highlighted these weaknesses. The mechanisms which should have guaranteed stability – fiscal rules and market discipline – had failed, and the interaction between sovereign default and banks had been underestimated. Mechanisms for coping with a crisis had not been foreseen, even though members of a currency union, in which the central bank does not function as a lender of last resort, are exposed to special risks

2. P. Hall, “The Economics and Politics of the Euro Crisis”, *German Politics*, Vol. 21, No. 4, 2012, pp. 355-371.

– unable to safeguard liquidity, they are thus vulnerable to speculative attacks.[3]

In 2010 new instruments for stabilisation were introduced in order to stabilise the euro area, contain spillover effects and prevent individual members having to leave – or an uncontrolled break-up of the euro area with unpredictable economic and political consequences. In addition to the extensive European Central Bank (ECB) measures, which included reducing interest rates and bond purchasing, a rescue package – the European Stability Mechanism (ESM) – was introduced. It granted conditional bailouts to help countries in difficulty. Plans for a banking union were initiated and an action plan for a capital markets union was launched, with the aim of spreading risk. The Stability and Growth Pact (SGP) was also reformed to improve the regulatory framework for monitoring compliance on budgetary discipline and strengthen macroeconomic development.

Further reforms needed

Time will tell how effective these measures will prove to be in the medium term and what effects they will have beyond stabilising an acute crisis. Despite the measures implemented, economists are in broad agreement that further measures are needed to make the euro area more resilient to shock, by reducing or spreading risk and strengthening the EMU's institutional cornerstones. However, there is no consensus on the (minimum) measures needed in order to achieve this.

Those measures discussed in the relevant literature aim on the one hand to strengthen or restore the previous regulatory framework and the original EMU operating principles, essentially, to ensure the members' individual responsibility through fiscal rules and market mechanisms. On the other hand, the existing institutional set-up is to be augmented with further steps towards fiscal union. There are four major areas of reform[4]:

3. J. Pisani-Ferry "The Known Unknowns and the Unknown Unknowns of the EMU", Bruegel Policy Contribution, No. 2012/18, October 2012. P. De Grauwe, "La zone euro a une gouvernance insoutenable", *Le Monde Online*, 9. June 2018.

4. See in particular: H. Enderlein *et al.*, "Completing the Euro: A Road Map towards Fiscal Union in Europe, *Notre Europe*, 2012; European Commission, A Blueprint for a Deep and Genuine Economic and Monetary Union, *COM* (2012) 777 final/2, November 2012; C. Allard *et al.*, "Towards a Fiscal Union for the Euro Area", *IMF* Staff Discussion Note, N° SDN/13/09, September 2013; M. Dolls, C. Fuest, F. Heinemann and A. Peichl, "Reconciling Insurance with Market Discipline: A Blueprint for a European Fiscal Union", *ZEW* Discussion Paper, No. 15-044, July 2015; G. Thirion, "European Fiscal Union: Economic Rationale and Design Challenges", *CEPS* Working Documents, No. 2017/01, January 2017. A. Bénassy-Quéré *et al.*, "Reconciling Risk Sharing with Market Discipline: A Constructive Approach to Euro Area Reform", *CEPR Policy Insight*, No. 91, January 2018.

Firstly, a deepened banking and capital markets union, to include the creation of a common deposit guarantee, a tightening of capital requirements for banks, greater risk weighting for government bonds, and measures to counter the growth of bank concentration risks and strengthen the role of private investors.

Secondly, a revision of the operating mechanisms of the SGP to simplify fiscal rules, strengthen compliance, change sanction mechanisms and reduce the pro-cyclical nature of the rules.

Thirdly, a strengthening of market discipline by giving greater weight to the basic principle of no bail-outs. This could be achieved through an insolvency code for states, but also through clear rules on debt sustainability and the participation of investors (bail-in).

Fourthly, further development of monetary union towards a genuine fiscal union, with measures on risk sharing that go further than existing instruments (fiscal rules, transfers through the EU budget, risk sharing in the ESM and Outright Monetary Transactions (OMT) programmes). Possible reforms include the creation of a fiscal backstop for states and banks, and an automatic stabiliser in case of asymmetric shocks, e.g. in the form of a European unemployment insurance, a greatly enhanced fiscal capacity and common debt instruments, such as Eurobonds.

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The debate is ongoing concerning the best measures for stabilising the euro area and achieving optimal balance concerning contrasting principles such as competition and solidarity; flexibility and commitment; and individual responsibility and transfer of sovereignty. At the same time, it is important to remember that – just as in its founding – any reform of the euro area does not follow a solely economic rationale, but also always – and in some cases overwhelmingly – a political one. Which reforms are the subject of political discussion? Are they feasible?

German and French reform perspectives

From the outset, the creation and development of the Economic and Monetary Union was shaped by the special commitment of German and French politicians and their implacable arguments on its design. Thanks to the special cooperation structures that emerged from the Élysée Treaty, facilitating compromises, at crucial junctures the two countries often assumed the role of a constructive driving force.

It is common knowledge that France and Germany, despite many converging developments, have, particularly regarding questions of economic policy, repeatedly expressed opposing preferences and differing priorities. These are the result of divergent interests, but also of the specific circumstances in which their economy and economic policy developed in the 19th and 20th centuries, particularly since the Second World War. The resultant economic principles and political preferences are held in high regard, even though they are neither uncontested nor, seen over a long period of time, set in stone.

Put simply, measures which centre on the balance between liability and control, emphasising the role of a stable set of rules which cannot be bent to fit changing circumstances, meet with approval in Germany. Conversely, measures which centre on discretionary and flexible capacity for action for national authorities are supported in France.[5] At the same time, concerns regarding undesirable effects of risk sharing (moral hazard) are less prevalent there than in Germany, although France, as the second largest net contributor to the EU budget, would not necessarily be a beneficiary of any such mechanisms.

Developments since 2010

These fundamental positions also left their mark on the debates surrounding the euro area crisis. Germany saw itself forced into an ambivalent role in the crisis and the development of Berlin as a decision-making centre and centre of power came under heavy criticism. Along with its political and economic

5. M. Brunnermeier, H. James and J.-P. Landau, *The Euro and the Battle of Ideas*, Princeton: Princeton University Press, 2016.

clout, special individual concerns also played a role – financially, as the largest net contributor to the EU budget, and institutionally, because of the Bundestag approval required and the rulings of the Federal Constitutional Court. At the same time, Germany felt obliged to go along with further unwanted developments in the euro area.

In the discussions on the bailout of Greece and other countries, Germany strove to ensure that measures taken in the crisis should not offer false incentives in the future. Loans to Greece came with high interest rates and were bound by strict stipulations on reform and spending cuts. Germany also wanted private investors to accept losses (haircuts). Furthermore, Germany insisted on the strengthening of budgetary rules and greater automatism of sanctions. At the same time, the Government resisted the communitisation of (new) debts and other forms of risk sharing.

Due to the perilous position of the common currency, Germany, despite its strong bargaining position, found itself forced to accept institutional developments which met with great resistance in German society. These included both the ECB measures and the support programmes that were part of the ESM and its earlier versions. The prevailing opinion in the country was that despite their infringements of the binding agreements forming the basis of the currency union, Germany had been supportive of those countries affected by the crisis and facilitated a pragmatic stabilisation that minimised false incentives. From a German perspective, solidarity means respecting the common rules as much as providing financial help (for self-help).[6]

The French Government, on the other hand, was more open to the quick deployment of community instruments for stability. The focus of the French analysis was on the short-term risk of contagion threatening other euro area members, rather than the long-term consequences of bailout policies and their incentives. As a result, Germany's reluctance to provide Greece with financial support and Wolfgang Schäuble's demands that individual countries lose voting rights or, as a last resort, leave the euro area, caused considerable friction. While Germany called for a strengthening of fiscal rules, Nicolas Sarkozy petitioned for a new structure for political

6. J.-F. Jamet, F. Lirzin, J. Schild and D. Schwarzer, « Gestion de crise et réformes de la gouvernance dans la zone euro : des approches différentes, mais une concertation étroite », in : C. Demesmay, M. Koopmann and J. Thorel (eds.), *L'Atelier du consensus. Processus franco-allemands de communication et de décision*, Cergy-Pontoise: CIRAC, 2014, pp. 21-42, p. 25.

concertation in the form of Euro Summits and supported both the massive firewall provided by the ECB and the rescue packages.[7]

Although some positions have remained unchanged, there have been several modifications since the crisis. German support for a fixed form of crisis management such as the ESM proves that a comprehensive definition of stability has become acceptable.[8] At the outset, Angela Merkel insisted that there could be no permanent mechanism for crisis management, as this would create false incentives. Today, however, the existence of an institutionalised "fire brigade" is no longer controversial. There has also been a change of opinion in France. In reaction to increased French risk premiums in the capital markets in 2010, a focus on measures for household consolidation already emerged during Sarkozy's term of office.

7. J.-F. Jamet *et al.*, *op. cit.*, p. 25, pp. 34-35; J. Schild, "Leadership in Hard Times: Germany, France, and the Management of the Eurozone Crisis", *German Politics & Society*, No. 31, Vol. 1, 2013, pp. 24-47, pp. 29-30.

8. H. Enderlein, K. Gnath and J. Haas, "Deutschland und die Stabilität der Wirtschafts- und Währungsunion", in: K. Böttger and M. Jopp (eds.), *Handbuch zur deutschen Europapolitik*, Baden-Baden: Nomos, 2016, pp. 247-260, p. 259.

Common plans for reform?

The success of Franco-German cooperation is full of preconditions and dependent on a number of factors. Sweeping euro area reforms are a particularly challenging field for reaching agreement: the consequences of decisions are far-reaching; the respective starting positions are far removed from each other; resistance, particularly in Germany, is considerable; and, compared to the height of the euro area crisis, there is a diminished sense of urgency.

Productive compromise between Germany and France requires both sides to recognise that the stance of the other is legitimate and that there are good reasons for it, not just egoistic and short-term considerations. The fact that the reform proposals cited reflect both German and French priorities to differing degrees shows that this is indeed the case.

A reform paper published by a group of eminent German and French economists[9] has indicated how the varying interests can be reconciled. The authors argue that French demands for more solidarity (through risk sharing) and the frequently issued German calls for greater individual responsibility (through market discipline) is not a zero-sum game, with more of one implying less of the other. Rather, both approaches complement each other, if combined in a correct or incentive-compatible form.

At the political level, we have already seen joint proposals for the reform of the euro area over the past number of years. In May 2013, Angela Merkel and François Hollande proposed "a common orientation for the economic policy of the euro area". The two leaders stressed the necessity for fiscal convergence as well as tackling social imbalances and the role of solidarity mechanisms in the form of a specific fund for the euro area.[10]

More recently, former finance ministers Emmanuel Macron and Sigmar Gabriel presented joint proposals which ranged from structural reforms to the creation of a fiscal capacity and new executive powers at the European level.[11] A joint European Parliament address on euro area reforms by Merkel and Hollande had been planned for autumn 2015, but this was effectively

9. A. Bénassy-Quéré *et al.*, op. cit.

10. Presse- und Informationsamt der Bundesregierung, "France and Germany – Together for a Stronger Europe of Stability and Growth", Pressemitteilung, No. 187/13, 30 May 2013.

11. E. Macron and S. Gabriel, "Europe Cannot Wait Any Longer: France and Germany Must Drive Ahead", *The Guardian*, 3 June 2015.

buried by the pressing issues of migration and the fight against terrorism. Both practically and politically, there had for some time already been signs of compromise between France and Germany.

Macron's advances

The current momentum for reform has come from Emmanuel Macron. In his election campaign, he made extensive reform of the European institutions one of his central (and electorally decisive) issues, calling for nothing short of a relaunch of the European project. One important element of his proposals was comprehensive reform of the euro area to include a European finance minister with a separate budget, monitored by a form of euro area parliament. Funds from the budget would be used for European investment projects.[12]

Macron reiterated his ideas during a speech at the Sorbonne, shortly after the German federal elections in September 2017[13]. He stressed that Europe needed more investment and broader instruments for stabilisation in case of economic shock and argued that any budget necessarily required strong political control. Macron's ideas foresee a convergence of social models and aim to foster greater convergence between member states. The costs of this convergence process should be shared more equally by those countries with stronger economies, showing solidarity towards those member states attempting to catch up.

At the same time, Macron argued that the solidarity implicit in such a budget was bound up with greater responsibility for individual states, beginning with respect for the existing rules and including national reforms. His understanding of solidarity goes beyond the narrower, economic definitions of collective liability or risk sharing, seeing it as a broad foundation for European unity. He did not provide a detailed concept of what this might look like, meaning that his ideas should be understood as a flexible framework for political negotiation.

For implementation of these proposals, Macron was already during his election campaign counting on the Franco-German axis. In the tradition of the close relations of some of his predecessors, he wants to build a "common force".[14] In this, he is supported by several of his closest aides, who know Germany and Franco-German relations well. [15] Germany was already an

12. En Marche ! Le programme d'Emmanuel Macron pour l'Europe.

13. E. Macron, "Initiative pour l'Europe. Une Europe souveraine, unie, démocratique", speech from 26 September 2017, Paris.

14. Macron in an interview with several European newspapers, incl. *The Guardian* 21. June 2017.

15. These include: Jean Pisany-Ferry, who designed his electoral programme, teaches at a German university; Phillippe Etienne, foreign policy advisor at the Élysée-Palast, previously ambassador to

important topic for Macron during his time at the Élysée Palace under François Hollande[16].

With regard to domestic policy, Macron was prepared to use his full authority. In particular, he viewed adherence to the Maastricht criteria that caps the budget deficit at 3%, which France had not managed to achieve for 10 years, as a sign of credibility and readiness to not waver even if it created difficulties. He repeatedly emphasised that France had changed and that there was no reason for automatic rejection of French proposals. “Wake up!” were his words on receiving the Charlemagne prize in Aachen in May. French Finance Minister Bruno Le Maire also told the German press that it was time France’s “German friends” realised there had been a “genuine change of mentality”.[17]

Even while the German coalition talks were still in progress, Le Maire visited Berlin to swiftly initiate bilateral discussions. Macron himself was in close contact with the Chancellor and visited Germany several times within the space of a few months. He tailored his proposals to what was, from the German perspective, (just about) acceptable. At the same time, he hinted that German economic strength and its much-criticised trade surplus were to some extent a result of the weakness of other member countries, which was why Germany should offer financial support.

Macron's words became more explicit with Germany's delaying tactics following the formation of a government. In Aachen, he referred to those voices in his country calling for him to pursue conflict with Germany rather that cooperation. He spoke of a lack of courage and warned against making individual priorities into fetishes, ascribing to them attributes that in reality they do not possess.

Reactions from Germany

In Germany, there was little initiative on EU reforms. In contrast to the French election campaign, European issues played only a minor role in the German poll. Even though the Social Democratic Party (SPD) candidate for chancellor, Martin Schulz, was a European heavyweight, domestic issues were the focus of attention. Only during Merkel's second attempt to form a government, after the failure to build a so-called ‘Jamaica coalition’ of conservatives, greens and liberals (during which Macron's proposals had

Germany, Prime minister Edouard Phillippe lived in Bonn for several years during his youth. Finance minister Bruno Le Maire also speaks German fluently.

16. M. Wiegel, “Emmanuel Macron. Ein Visionär für Europa eine Herausforderung für Deutschland”, Berlin, *Europa Verlag*, 2018, pp. 108.

17. Bruno Le Maire in an interview with T. Hanke and T. Madelin, “Es gibt einen echten Mentalitätswechsel”, *Handelsblatt*, 9 November 2017.

been discussed with some controversy), did the SPD decide to give more prominence to European issues. Under the title “A new start for Europe”, they can be found at the beginning of the coalition agreement.

Despite this promising start (from a Franco-German perspective) for the grand coalition, there were at first no concrete developments. Opposition in the CDU/CSU to the fixed aims in the coalition agreement limited the Chancellor's room for manoeuvre. In addition, the staunchly pro-European wing of the SPD was severely depleted following Martin Schulz's resignation in the wake of party infighting and the departure of Sigmar Gabriel as foreign minister.

Olaf Scholz, the new SPD heavyweight who became vice chancellor and finance minister, positioned himself in alignment with the policies of his predecessor. “A German finance minister is a German finance minister, no matter which party he belongs to”[18], he stated, showing that the SPD would not be a “soft party” unable to defend Germany's interests. The assumption was that many voters would only support social democratic ideas in the area of social and European policy if reassured that their money would be spent prudently.[19]

In Germany the euro area crisis not only led to increased politicisation, but also to starker polarisation on European economic policy. Alongside the birth of the right-wing populist party Alternative für Deutschland (AfD) in 2013, which was strongly opposed to the Government’s course during the euro area crisis and enjoyed considerable success in the polls, a number of economists mobilised against further communitarisation. In May of this year, 154 economics professors attacked proposals for a union of liabilities, which, they argued, would lead to disincentives.[20]

Under these circumstances, it took some time for Angela Merkel to adopt a clear stance. Emmanuel Macron's visit to Berlin in mid-April did not result in visible progress. The Chancellor proposed a “jumbo council” of finance and economy ministers so that policies could be better coordinated, but she did not publicly elaborate the details. Her eulogy for Macron in Aachen on the awarding of the peace prize similarly failed to produce the (increasingly impatiently) awaited response. It was not until mid-June that Merkel outlined her position, largely in accordance with statements found

18. O. Scholz, Speech to the German Bundestag, *Plenarprotokoll*, No. 19/23, 22. March 2018, pp. 1956.

19. P. Dausend, “Alles aushalten”, *Die Zeit*, N° 21, 17 May 2018, p. 4.

20. H. Allinger *et al.*, “Aufruf. Der Euro darf nicht in die Haftungsunion führen!”, *FAZ Online*, 21 May 2018.

in the coalition agreement[21], in a lengthy interview and various other public appearances. This was soon followed by an interview where Vice Chancellor Scholz introduced the idea of European reinsurance for national unemployment insurance systems.[22]

The grand coalition agreed to support "a specific budget for economic stabilisation and social convergence and for the support of structural reform in the Euro area", which could be "the starting point for a future euro area budget for investment".[23] Further development of the ESM into a parliamentarily controlled monetary fund was also proposed. However, the coalition emphasised that risk and liability must remain interlinked.

Overall, the German answer is not a coherent set of alternative proposals. In many cases, there was no genuine analysis of Macron's plans. Instead, in political debate, his proposals were either supported or rejected outright with reference to basic operational principles (individual responsibility, self-help) and red lines (transfer union, joint liability), or misused and misinterpreted to further other agendas (a European financial compensation scheme, money pipelines from Germany, etc.).

That the fear of being Europe's paymaster does shape political debate cannot be brushed aside. Together with core beliefs on regulatory (or microeconomic) principles, it can explain the reluctance shown regarding further steps towards risk sharing. There is a growing rejection of the kind of chequebook diplomacy favoured by previous chancellors and a feeling that lurking behind the French proposals is the belief that in the end Germany will pay.

At the same time, however, a majority of Germans are open to Macron's ideas. Some 88% approve of his commitment to more European cooperation. Even his ideas on fiscal policy manage an approval rating of 62%, the lowest approval rating in the survey[24]. The results of an experimental survey design show approval ratings for an idea depend to a large extent on whether it comes from someone who puts it forward with conviction.[25] A (charismatic) politician who argues for a position with commitment can indeed bring people around to their point of view.

21. "Existenzfragen für Europa", A. Merkel in an interview with T. Gutschker and E. Lohse, *FAS*, No. 22, 3 June 2018.
22. "Germany Has a Special Responsibility", O. Scholz in an interview with C. Reiermann and M. Sauga, *Spiegel Online*, 8 June 2018.
23. Koalitionsvertrag zwischen CDU, CSU und SPD, 19. Legislaturperiode, Berlin, 12 March 2018, pp. 8-9.
24. ZDF Politbarometer, 27 April 2018.
25. T. Peterson, "Ein neuer Aufbruch für Europa?", *FAZ*, No. 46, 23 February 2018.

The Meseberg Declaration

After initial difficulties, preliminary discussions took place while the German coalition talks were still in progress. From April onwards, there was close cooperation between the two finance ministries. Through a series of five meetings, some of which went on until dawn, and over 35 hours of negotiations[26] before the Franco-German Council of Ministers on 19 June, an agreement on principle guidelines was reached. Macron and Merkel themselves clarified some unresolved questions during the meeting, which was in the form of a workshop. Within the common roadmap presented as the Meseberg Declaration, which includes proposals in a large number of policy fields, both sides agreed on two core areas for reforming the euro area:[27]

Firstly, the further development of the ESM. Previous elements of the treaty should be reviewed and, where necessary, modified. A transfer of further responsibilities on macroeconomic monitoring are to be considered. In addition to the existing programmes, a macroeconomic stabilising function should be introduced to support individual countries with short-term conditional loans, to help them cope with difficult economic conditions in case of asymmetric shocks. Moreover, the ESM should also assume the function of a backstop for the single resolution fund in the form of a credit line. To this end, the ESM Treaty should be modified and in the medium term enshrined in EU law.

Secondly, the creation of a euro area budget. This is foreseen for 2021, when the new multi-annual financial framework comes into force. The aim of the budget is to further competitiveness and convergence between the member states, particularly through investment in innovation and human capital. Strategic decisions on the budget will be made by the member countries, with the European Commission deciding on expenditure.

Little progress was made on the integration of the European Deposit Insurance Scheme (EDIS), which is a contentious issue in Germany. The "jumbo council" proposed by Merkel was not discussed and Scholz's ideas

26. J. Stroobants, C. Ducourtieux and T. Wieder, "Eurozone : Français et Allemands peaufinent une « feuille de route » commune pour l'Europe", *Le Monde*, 18 June 2018.

27. Bundesregierung, "Meseberg declaration", Pressemitteilung, No. 214, 19. June 2018 and transcript of the press conference; French German roadmap for the Euro Area, www.bundesfinanzministerium.de.

on reinsurance (in the form of loans) for national unemployment insurance systems was only noted as a policy option to be considered by a Franco-German working group, which should produce proposals ahead of the European Council of Heads of State and Government in December. Macron's ideas for a European finance minister and a euro area parliament monitoring body were not mentioned. His wish for greater convergence of social standards also only surfaces as a vague objective.

Problems and potential

Despite the promising circumstances (a Germanophile French government, a reform-oriented president, a similar election calendar), the Meseberg Declaration had a difficult beginning. Although some important decisions on content have been postponed, the agreements reached between France and Germany on strengthening the Economic and Monetary Union are nevertheless an important juncture on the path towards a deeper fiscal union.

As regards content, the progress made by Franco-German compromising is impressive when one takes into consideration its political impact, the divergent preferences, a (domestically) weakened chancellor and the overshadowing of the issue by the migration problem. Compared to the hesitant recognition in the German coalition agreement of the possibility of a common budget, it has quickly materialised. Introducing a solidarity-based element to the unemployment insurance system was not even mentioned in the agreement.

At the moment, it is difficult to make a sound assessment of the progress made in the Franco-German search for consensus. Too many details are still missing, such as financial provisions, intended use, competences, processes, etc., and advocates of a full-scale overhaul of the EMU will see at best only hesitant steps in the right direction.

It would have potentially been better to give a more prominent role to a European financial resource, such as a financial transaction tax or taxation of global internet giants. This would have dealt with German opposition towards transfers and concerns over the Bundestag's budget sovereignty. Similarly, Macron, with his concept of European sovereignty, might also have been more willing than some of his predecessors to transfer some decision-making powers, e.g. on budgetary matters, to Brussels.

Regardless of its content, the negotiation process showed in two respects where the particular challenges to Franco-German cooperation lie: seen bilaterally, the French President did his utmost to court Germany as a partner. He repeatedly reached out to Germany, at great political risk to himself. Indeed, on some points, he collaborated more closely with the Federal Chancellery than with his own foreign ministry. He was also willing to accept painful savings in order to meet the European deficit criteria. Through his actions, he raised public expectations regarding a German answer, increasing pressure and raising the political price of failure to find consensus.

Despite this, the French President failed to convince the German side that deeper financial solidarity among EU member states and particularly among euro area members was a key factor for European unity, and thus also for the future of the European project. Both Macron and his finance minister repeatedly argued that one should at least be able to agree on the goals, and that a way to achieve them would then materialise. However, it was precisely this convergence on objectives, in the past so crucial for far-reaching Franco-German initiatives on Europe[28], which failed to emerge.

In terms of solidarity in Europe and cohesion within the Union, a common solution to the refugee crisis is number one on the list of German public concerns. Furthermore, from a German point of view, financial solidarity is closely bound up with mutual trust in the agreements made – which has been damaged in the past years. Trust in its long-time partner France cannot be regained instantly. In any case, any European reform necessitates confidence in further partners. The frequently postulated connection between French reforms and German concessions does not go far enough, even though, through his efforts, Macron's proposals have gained significantly in legitimacy and credibility.

With the agreement on a euro area budget, Emmanuel Macron achieved a symbolic victory which he now must push through at the European level. The danger is that strengthening the currency union through a new medium-sized coffer, if indeed it does materialise, will not achieve much: up until now, macroeconomic stabilisation in the form of credit lines and reinsurance has been weak. In any case, financial transfers for structural convergence within the framework of European regional policy have already existed since the Treaty of Rome. The question is to what extent the common budget will succeed in bringing a greater ability to act and shape developments.

At a Pan-European level, the reaction to the Franco-German initiatives shows that it has become more difficult to gain recognition and support for bilateral compromises. The bilateral consultations between France and Germany during the euro area crisis in October 2010[29] were already viewed

28. U. Krotz and J. Schild, *Shaping Europe: France, Germany, and Embedded Bilateralism from the Elysée Treaty to Twenty-First Century Politics*, Oxford: Oxford University Press, 2012, pp. 39-42 and 183.
29. J.-F. Jamet *et al.*, *op. cit.*, pp. 27-28.

with suspicion. Prior to the current initiatives, a group of northern European countries called for compliance with existing rules and multilateral consultations.[30] The contents of the Meseberg Declaration were greeted with caution at the Summit at the end of June and the euro area budget was not even mentioned in the final communiqué. The signs are that France and Germany will have to coordinate more closely with further partners in order to put their special relationship in the European political process to constructive use outside of the institutionalised procedures.

30. Finance ministers from Denmark, Estonia, Finland, Ireland, Latvia, Lithuania, the Netherlands and Sweden underline their shared views and values in the discussion on the architecture of the EMU, press release, 6 March 2018.

Outlook

Whether the Meseberg Declaration will turn out to be a milestone or a footnote in history depends less on its specific content than on whether it will prove possible to create a Franco-German or European binding roadmap with a fixed timeframe and rapid implementation. Both France and Germany will have to accept that if they are unable to engage with one another they are in peril of ending up without committed partners. With it having taken almost a year to achieve significant progress in Franco-German agreement, the time window for European compromises before the European elections in May 2019 has become quite tight. There is a real danger that the issue will be overshadowed by other, more pressing problems. Political changes in Germany could also slow the process. If it proves impossible to reach further European agreements before the December Summit, it is more than likely that the euro area reforms will be postponed and the Meseberg plan of action will be – at least for the time being – at a dead end.

Is reform possible? Only through concerted efforts. Negotiations with all those members whom, for whatever reason, are sceptical towards the proposed reforms have scarcely advanced since June – with the EU Summit in October producing little impetus for progress before December. Alongside France and Germany, the European Commission, which has so far failed to bring structure to the debate through its own reform proposals, can play an important role. In essence, any politically achievable result can only be an uncomfortable compromise.

At the same time, in Germany, as well as in several other member countries, the long overdue debate on both the weaknesses of the European institutions and the immense advantages of a united Europe must begin. The economic pressure to act may have subsided, but the political pressure has not. Despite the current polemic, politicians can rest assured that the majority of Europeans support the European project and that the chances are good that sensible and reliable common solutions will receive support, even when they come at a cost. We simply cannot afford another missed opportunity.

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