

Can France and Germany Design a New European Contrat Social?

Written by Ulrike Guérot

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ULRIKE GUÉROT, MAY 28 2012

One could fill libraries with books and articles on Franco-German relations. These powers have always been Europe's engine, and the key to European integration. Since Stanley Hofmann's famous 'symmetry of the asymmetry' in the 1960s, the unequal couple has always been the driving force for 'more Europe': they made things either happen – the European Single Act in 1986, the Single Market in 1992, the Eurocorps the same year and finally the euro; or they blocked them – the European Defense Community in 1954, the Fouchet Plans in 1959 or the European Constitution (France) in 2005.

But, rarely, the future of Europe literally depended on the next Franco-German compromise. It should happen around the forthcoming EU-Summit on June 28 2012, and hopefully a little earlier, to haul up Europe through the difficult moment that it will face around the Greek (and French) parliamentary elections scheduled for 17 June.

Greece needs a stable government, capable of implementing more of the harsh reforms demanded by the European Troika; and it needs a fresh injection of money. But the latter depends on the former. And markets will need clear signals on what is happening in, and planned for, the Eurozone: the best would be a clear roadmap for Eurobonds. The German *Bundestag* still needs to vote on both, the Fiscal Compact and the ESM (European Stability Mechanisms) and could make this vote conditional on the situation in Greece. A run on Greek banks is no longer excluded and has probably already started. In short, rarely has Europe seen such tormented weeks, when nearly everything appeared to be at stake in an uncontrolled dynamic of disintegration: the survival of the single currency and, with it, European democracy the way we know it.

This aptly describes the present historic moment. A huge burden lays on the shoulders of Angela Merkel and François Hollande, the newly elected French President who has challenged Merkel on her austerity policy. In a way, Hollande has succeeded in choreographing a pan-European movement and argument on growth and how to stimulate it; Merkel seems increasingly isolated with her austerity policy. The French proposals call for a greater lending capacity for the European Investment Bank EIB; a different way to use the European budget and spend money on a European-wide infrastructure program – e.g. financing the so-called smart grid in the fields of energy, information and telecommunications industries and transportation – the creation of stability bonds or a financial transaction tax. None of these seem excluded for the time being; a compromise might be in reach.

In my most recent paper for the ECFR "After Merkozy", I argue that the Franco-German tandem actually works best when it disagrees: it is such disputes and arguments which give ownership and space to the other EU-countries. It was precisely the too-big symbiosis, the narrowness of the tandem that had left no space for the arguments of the others in recent months. So there is potential in the current Franco-German arm-wrestling to pave the way for a compromise on Euro-governance.

What Europe needs today is a new European *contrat social*, meaning a new state-market and capital-labor relationship. Both have been disentangled through the treaty of Maastricht, which had pushed market and currency to the European level, but which had left social policies of redistribution on the national level, including the regulation of wages. The current crisis, which is multi-causal, is the consequence of these two derailments. has led to the

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erosion of democracy in Europe – the democratic deficit, as it is widely described today. Harvard Professor Amarta Sen, for example, has argued that you cannot hand over decisions on expenditure to a technocratic institution, making disastrous policies, without having voters revolt. The situation in Greece is basically about the fact that the Greeks can always vote, but they have no choice. It is the most obvious and concrete political example of Colin Crouch's notion of Post-Democracy, a state in which formal democracy still functions, but is hollowed out in its core functions.

If the Euro is to survive, it must address this problem urgently, and only France and Germany can pave the way. The two are the 'critical mass' in Europe, they come from different poles on these questions and a compromise between the two can pave the way for a European *contrat social*. A sort of merger between the two concepts of statehood and economic beliefs could, indeed, become a blueprint for a new European socio-economic model. If Europe needs and wants Eurobonds to secure the Euro, then it also would need a new transnational democracy, as Eurobonds – with respect to the legitimacy of the EU system – cannot function in the current setting held back by the principle of national budget sovereignty. France and Germany would need to make this game-changer happen.

Eurobonds ultimately would need a sort of Eurobonds-Parliament, in which the countries of Euroland decide collectively on spending priorities, if they do not want these decisions to be out-sourced to a technocratic body. Such a compromise would require much from France and Germany, as they both come from very different socio-political traditions. France probably has more difficulty accepting a strong role for parliament(s) than Germany in the future EU's democratic system. However, in exchange, the Germans would need to finally accept that the Euro, as all currency (and hence a central bank) is *political*, and has always been. Europe cannot be governed by the ECB!

This will be the hardest, but the crucial point to be accepted by Germany. The question is whether the political system of Germany at large can deliver on this question, as its public opinion is poisoned by orthodox beliefs with respect to inflation and stability paradigms, which reduce Merkel's room for manoeuvre. All good solutions for the Euro – be it Eurobonds or installing the ECB as lender of last resort – seem legally or politically impossible for Germany. This is the current tragedy. But Europe has always had a great ability to find solutions when its future was at stake.

It is not astonishing that history is holding its breath, as what Europe is doing right now – should it have the force to come up with a concept for the mutualisation of debt – is *de facto* nothing less than trespassing the nation-state. Let's hope that France and Germany can find the energy and courage to push Europe into this post-modern democratic state, and turn it into a powerful tool for shaping global policy in the 21st century.

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