

Germany and France - Moving Together?

Research Paper 96/28

20 February 1996



As the launch of the Intergovernmental Conference approaches and the debate over the timetable and economic criteria for economic and monetary union intensifies, the position of Germany and France as the motor of EU integration is in some doubt. This paper considers recent events in the two countries individually and as an alliance, particularly in the light of recent questions about the achievement of economic and monetary union.

Vaughne Miller
International Affairs and Defence Section

House of Commons Library

Library Research Papers are compiled for the benefit of Members of Parliament and their personal staff. Authors are available to discuss the contents of these papers with Members and their staff but cannot advise members of the general public.

Contents

	Page
Introduction	5
I Germany	5
A. Germany in Europe: an overview since unification	5
B. The Political Parties	9
C. Government Prospects	13
D. German Views on Economic and Monetary Union	14
II France	18
A. From Mitterrand to Chirac	18
B. Chirac's European Policy	18
C. Attitudes to EMU	20
D. Unrest over Welfare Reform	21
E. French Withdrawal from the Schengen Agreement	23
III EMU and the Intergovernmental Conference	25

Introduction

In September 1994, the German CDU/CSU parliamentary caucus put forward proposals for a "hard core" of EU member states which would be the motor of European integration. This core would consist essentially of France and Germany and include the Benelux countries. The paper stated:

... the countries in the hard core must not only naturally participate in all political spheres but in addition act jointly in a more recognisably Community-orientated way than do others and introduce joint initiatives in order to develop the Union further. Belgium, Luxembourg and the Netherlands should therefore be involved more closely in Franco-German co-operation - particularly since the Netherlands has revised its previous sceptical attitude towards the essential motor function of these two countries.

The Franco-German alliance that has been at the heart of post-war European integration has recently been under some strain. The Kohl-Mitterrand relationship central to German European policy for a decade has taken on a different guise with President Chirac. Cracks have emerged in areas where there had been agreement: the use of qualified majority voting in the Council of Ministers, the retention of the national veto, the powers of the European Parliament, nuclear testing and the Schengen Agreement, for example.

In recent weeks tension has centred on prospects for economic and monetary union (EMU). The German realisation that it might after all have difficulty in achieving the criteria for EMU set out in the Treaty on European Union (TEU) and the French Government's determination to join EMU, even at considerable social and economic cost, have brought about a crisis of confidence in European economic and monetary policy. Both governments have sought jointly to repair the damage by introducing (at the end of January) new economic packages in an attempt to dispel fears that the plan for EMU in 1999 might have to be postponed. It is still not clear whether these initiatives will succeed. The political situation in France and Germany is considered below as the backdrop to the present dilemma over economic and monetary union.

I Germany

A. Germany in Europe: an overview since unification

German unification in 1989 has been regarded as one of the most important post-war political achievements but has also given rise to concern and suspicion in some European states (France, the UK and Poland, for example). Germany's potential political weight and economic

Research Paper 96/28

power have led some commentators to ask whether moves towards deeper European integration will lead to a European Germany or a German Europe.

According to a *Guardian* report :

Notwithstanding an unease among Bonn's political establishment, Germany is set to dominate Europe in 1996, to exercise more muscle further afield, and Mr Kohl looks set for a starring role on the world stage.¹

The German Government has re-emphasised that Germany's post-unification aim is to "serve world peace as an equal partner"² and that the "unification of Germany is inextricably linked with that of Europe".³ Shortly before the Rome European Council summit in December 1990 Mr Kohl emphasised that Germany was "even more willing to transfer sovereignty to the European Community. We shall continue to strive for the great goal that we and our European friends have in common - the United States of Europe".⁴ This was also emphasised in the Chancellor's recent speech at the University of Louvain in Belgium, when he spoke of European integration being "a question of war and peace in the 21st century" and continued:

We Germans ... have specific reasons for needing a united Europe. Germany has more neighbours than any other country in Europe. What happens at the European level has an immediate impact on us and vice versa. We are therefore well aware of what we in particular owe to European integration. Germany has a fundamental interest in ensuring that all its neighbours become members of the European Union one day.

In my view, reason dictates that we Germans keep in mind how our neighbours see us. Even today this image is marked by historical burdens, as well as the economic power and size of the population of united Germany. It is in our very own interests that we dispel distrust and act as a reliable partner. For Germany to pursue a foreign policy not committed to the principles and objectives of European integration would be irresponsible.⁵

Economically and politically, Germany has always had a significant role to play in European Community policy and decision-making. Even during a period of economic recession, the Bundesbank has remained a powerful institution and the Deutschmark the most respected currency in the EU. Germany is also the biggest net contributor to the EU budget, a factor which has contributed to a growing cynicism towards the Union among a German public already complaining of the added tax burdens of unification.

¹ 1 January 1996.

² Speech by Hans-Dietrich Genscher on 5 May 1990.

³ Chancellor Kohl's message to Mrs Thatcher on the day of German Unity, 3 October 1990. Full text can be found in *Report from the Federal Republic of Germany*, 3 October 1990.

⁴ *Report from Germany*, 27 November 1990.

⁵ 2 February 1996, press release of the Federal Republic of Germany.

Some commentators have been critical of Germany's influence in the EU institutions. Germany has 99 members of the European Parliament, more than other member states but is still if anything under-represented proportional to its population. There are two German Commissioners, the same as the other "large" member states, and in the Council of Ministers it has no greater voting power than Britain, France and Italy, the other large members. From a survey of qualified majority voting records in the Council of Ministers since they have been officially recorded (ie since October 1993), it is clear that Germany and the UK have been outvoted on the most occasions, with the UK marginally ahead of Germany in the final score.

Not all Germany's post-unification foreign policy moves have calmed the fears of those suspicious of German dominance. Germany's self-imposed constraints, following four decades of restraint by the allied occupying powers have given way to accusations of "German assertiveness" in European and international politics. In EU decision- and policy-making, German ministers have been accused of heavy-handed tactics and bullying. Examples cited include the Franco-German proposal that the Belgian Prime Minister Jean-Luc Dehaene should succeed Jacques Delors as Commission President in 1995. The British Government objected, not apparently due to disapproval of Mr Dehaene or his credentials, but because of the way in which he had been promoted by France and in particular by Germany. Germany's calls for stronger, more restrictive asylum procedures throughout the European Union (which many member states in fact favour) and its request for a seat on the UN Security Council (of which some members are wary) have also been cited as examples of German assertiveness.

Chancellor Kohl's decision to push for early recognition of Croatia in December 1991 was criticised for allegedly precipitating the hostilities in the former Yugoslavia. Allegations of German arm-twisting of its EC partners to obtain agreement on recognition of Croatia along with Slovenia at that time hit a raw nerve in Germany. It is perhaps true to say that Germany was acting much more assertively than the rest of the EC at the time, although Ian Black writing in *The Guardian* insisted that the German move had to be viewed in context:

Context is vital: as Yugoslavia fell apart in the summer of 1990 Germany had just exercised its own right to self-determination and Slobodan Milosevic's tanks ploughing through the cornfields struck a familiar chord of raw brutality - just an hour's drive from Munich. Domestic considerations were certainly important. Croat refugees, Germany's Catholic lobby and a powerful press campaign were hard for Kohl and his veteran foreign minister Hans Dietrich Genscher, to ignore.

But the truth is that not only was there no hidden agenda, no new Drang nach Osten, the first move towards a Fourth Reich, but there was also no real policy either.⁶

⁶ 6 July 1993.

While more sinister motives were suspected elsewhere in the Union, in Germany the move was attributed largely to panic in the foreign ministry.

German participation in European, Nato and UN military and peacekeeping operations has been the subject of debate both in the German Parliament and among other European states. Since the Gulf War in 1991 Germany has contributed to humanitarian and monitoring operations overseas in a gradual and cautious resumption of an active global role. This has not been without controversy within Germany itself, with its past still at the root of a distinct reluctance even to participate in surveillance or peace-keeping duties outside Nato. At the end of June 1995 the Bundestag debated and voted on whether or not to send German troops to areas outside the NATO area, specifically, whether to send Tornado fighters to Bosnia as part of the Anglo-French-Dutch Rapid Reaction Force to support the UN mission there. Chancellor Kohl was in favour of German military support in the former Yugoslavia, whereas the then opposition SPD leader Rudolph Scharping was opposed on the grounds that it was against the SPD anti-militarist tradition. Instead he recommended a negotiated political solution. After securing a simple majority in the Bundestag in favour of participation, the German Constitutional Court ruled on 12 July 1994 that German troops could serve in UN operations. The ruling was on the legality of three operations involving German participation, concerning which appeals had been made to the Court:

- i) the sending of a German destroyer to help blockade Serbia,
- ii) German crews flying Nato Awacs planes to monitor Bosnia's no-fly zone;
- iii) the deployment of German troops in humanitarian efforts in Somalia.

Simon Bulmer⁷ and William Patterson⁸ concluded that at the moment, and largely due to the personality of Chancellor Kohl, "the more likely scenario is that of 'gentle giant'". The Chancellor is perhaps the key to Germany's present position in Europe:

Despite his wish to 'anchor' the new Germany in the integration project, in the face of these circumstances and of his experience and personality, Chancellor Kohl can scarcely *but* be the dominant figure in the EU. But is Germany on the brink of a new, purposive role as the emergent leader of the EU? The evidence, we suggest, is mixed. German unification continues to absorb political and financial energies. The commitment to multilateral diplomacy remains, and Chancellor Kohl continues with his pledge to anchor the 'new' Germany in European integration. The emphasis on, and commitment to, widening participation in Eurocorps is one manifestation. Domestic constraints on European policy have

⁷ Professor of Government, University of Manchester.

⁸ Foundation Director, Institute for German Studies, University of Birmingham.

grown. These are not of a party political nature, as in some other states, but derive from the institutional pluralism of the FRG's political system.⁹

The authors are guarded about the longer-term prospects for the "gentle giant", concluding:

... it is important to be under no illusions about the important power resources wielded by this gentle giant. Clearly, a first source of power consists of Germany's diplomatic resources. They may be constrained but they have been strikingly enhanced since 1989. Germany's role as the 'paymaster' of the EU is increasingly likely to be exploited to secure side-payments in other policy areas, for instance on eastward enlargement. The FRG's role as a major influence on the constitutive structure of the EU is a potential source of longer-term empowerment within the EU. That is to say, the more the FRG secures the modelling of EU institutions in its own image, the better it will be placed on the grounds of familiarity to use them to its own ends.

B. The Political Parties

This section looks at the political parties in Germany, their background, present strength in the German Parliament the Bundestag, and future prospects.

A recent opinion poll¹⁰ gave the following ratings for the parties:

CDU/CSU	37.5%
SPD	34.2%
Bündnis 90/Greens	13.2%
FDP	6.7%
PDS	5.2%
Republikaner	2.7%

In a general election these results would give the CDU/CSU a slightly reduced number of seats in the Bundestag than at present. The CDU/CSU won by a narrow majority in the 1994 elections with 41.5 per cent of the vote and holds 294 seats in the 672-seat Bundestag, against the SPD's 36.4 per cent (252 seats). The FDP vote in 1994 was 6.9 per cent (47 seats), giving the ruling coalition a total vote of 48.4 per cent and 341 seats. The FDP's future is uncertain, although the above opinion poll rating indicates only a small fall in support for the party and more potential votes than local elections results have shown (see below). The former communists, the PDS, would gain a few more seats than their present 30 but the

⁹ *International Affairs*, Vol.72, No.1, January 1996, "Germany in the European Union: gentle giant or emergent leader?"

¹⁰ *Frankfurter Allgemeine Zeitung*, 14 February 1996.

Research Paper 96/28

extreme right-wing Republikaner Party, in spite of an apparent increase in support from 1.9 to 2.7 per cent, would still not cross the 5 per cent threshold required to be represented in the Bundestag. The Green/Bündnis 90 alliance would almost double their vote and their seats in the Bundestag from 49 to around 80.

1. CDU/CSU

The CDU has been, with its sister party the Bavarian CSU, the leading party in a series of coalition governments in Germany for thirteen years, and although its last election victory in October 1994 was by a slimmer majority than in the past, opinion polls have continued to show more support for the CDU/CSU than for any other party. Chancellor Kohl currently has a ten-seat majority in the Bundestag or Lower House, while the opposition SPD controls the Bundesrat or Upper House.

The Chancellor had indicated at the time of the last elections that he would not stand again but he has no obvious successor for the 1998 elections. While many in the CDU parliamentary caucus are reluctant to see him to step down, others have invoked the period of Hitler's chancellorship and warned against the cult of one leader figure.

It has been suggested that the Chancellor might seek a grand coalition with the SPD, although there are no signs that either party leader would like to do this. Another possible course would be to hold early general elections. An election in 1997 would avoid the sensitive issues surrounding European monetary union which would dominate a 1998 election campaign and an election win would give the CDU a mandate until 2001, by which time EMU should be in place.

2. SPD

The Social Democratic Party of Germany (SPD), Germany's main opposition party for thirteen years, is the largest social democratic party in Europe with some 850,000 members.¹¹ The SPD is in control of 10 of Germany's sixteen states and in a governing coalition in four others, so from a federal perspective, the *Frankfurter Allgemeine Zeitung* (FAZ) reports¹² the SPD has more power than ever before in the history of the Federal Republic.

¹¹ *Frankfurter Allgemeine Zeitung*, 13 October 1995.

¹² *ibid.*

During the summer of 1995 three senior members of the SPD national executive resigned over what they called the "incoherence" of the party's economic policy. The leader of the parliamentary party, Rudolph Scharping, elected in 1994 following the resignation of Bjorn Engholm after a political scandal, began to look as if he too might be forced to resign. Scharping was not able to reconcile the different factions in the SPD: the unions, the greens, pacifists and managers, and his economic policies were considered to be uninspiring. The *Economist* described his politics as "death by boredom", and continued:

The leader of the Social Democrats embodies some of the German virtues that even the Germans can find irritating: hard work without imagination, discipline, and a modesty which makes his leadership seem uninspiring.¹³

There was support in the party for the premier of Lower Saxony, Gerhard Schröder. Schröder, a moderniser on the centre-right of the party, was seen as more dynamic than Scharping and probably a better bet for a challenge to Chancellor Kohl. On 31 August Mr Scharping sacked Schröder as the party's economic spokesman allegedly because of his ambition to "modernise" expressed in the political publication *Die Woche*. Lower Saxony is an important industrial state and home to Volkswagen. Mr Schröder defended jobs, nuclear energy, the arms industry (for the jobs it creates) and the costly European Fighter Aircraft project (involving Germany, Britain, Spain and Italy). He also supported lower taxation, more flexibility in the workplace and the reintroduction of Saturday working.

In elections to the Berlin assembly on 22 October 1995 the SPD won only 23.6 per cent of the vote to the CDU's 37.5 per cent, a post-war SPD low in Berlin and nearly 7 per cent down on the 1990 vote. Berlin has traditionally been an SPD stronghold and in the 1960s, when Willy Brandt was mayor, the party had polled some 60 per cent.

In the vote at the SPD party conference in November 1995 the premier of Saarland, Oskar Lafontaine, was elected party leader by a large majority. Lafontaine was the SPD candidate for Chancellor in the 1990 general elections and had been considered at the time to pose "the most formidable challenge yet to Helmut Kohl".¹⁴ His platform in 1990 centred on criticism of the process of German unification, a tactic which reflected a serious misjudgement of the public mood since he lost the election with only 33.5 per cent of the vote. This was the worst result for an SPD candidate in over 30 years, so his election in 1995 was all the more unexpected. Described as "fun, mercurial, tactically astute, combative and liable to spring surprises"¹⁵, the new SPD leader is likely to take the party more to the left than his predecessor Scharping, particularly in areas of foreign policy such as the use of German

¹³ 9 September 1995.

¹⁴ *Guardian*, 26 March 1990.

¹⁵ Ian Traynor, *Guardian*, 18 November 1995.

combat troops in the former Yugoslavia. The *Guardian* summarised Mr Lafontaine's current political profile as follows:

Confused, and unable to recapture the centre ground from Dr Kohl. Mr Lafontaine's ascendancy could signal a swing to the left - anti-militarist and environmentalist - with a tacit or overt coalition with the Greens and the former East German communists. The move makes for more polarised, less consensual politics on a European Union single currency, United Nations peacekeeping and a German role in Bosnia.¹⁶

3. FDP

After a number of electoral defeats, Klaus Kinkel, party leader since 1993, resigned as head of the FDP in May 1995 but continued as Foreign Minister in the CDU/CSU/FDP coalition Government. He was succeeded by the little known Wolfgang Gerhardt. The FDP fared badly in state/Land elections during 1995, losing all seats but one in 12 states, with representatives in only 5 of the 16 states. In the important Berlin city elections in October 1995, the FDP polled only 2.5 per cent of the vote, less than the extreme right-wing Republikaner Party. Elections on 24 March in the state of Rhineland-Westphalia will decide whether the current SPD-FDP coalition government there will continue. The *Frankfurter Allgemeine Zeitung* reported on 5 February that the FDP Finance Minister Brüderle would like the coalition to continue into the next legislature but foresees a serious challenge from the Greens/Bündnis 90 coalition.

The generally poor FDP results in state elections have raised the prospect that this once crucial party in the creation of coalition governments might fail to achieve the 5 per cent hurdle needed to be represented in the state parliament and could disappear altogether. Relations between the FDP and the main coalition partners has been marked by internal fights, with the FDP attacking the CDU/CSU for delaying the abolition of the so-called solidarity surcharge added to income tax to help pay for German unification. They also criticised the CDU for prevaricating over the liberalisation of shop opening hours.

It has been suggested that if the FDP do badly in the three important state elections to be held in March 1996 in Rhineland-Palatinate, Baden-Württemberg and Schleswig-Holstein, its participation in the Bonn coalition would no longer be tenable. Although the coalition's credibility in general would be questionable in this case, technically the 47 FDP deputies currently in the Bundestag could stay in the government coalition until the 1998 elections.

¹⁶ *Guardian*, 17 November 1995.

4. Greens

The fall of the FDP has been accompanied by a rise in the popularity of the Greens, who doubled their vote in the state elections in North-Rhine Westphalia, Germany's largest state and its industrial centre. The Greens and their election partner Bündnis 90 (Alliance 90) have so far been reluctant to enter into any other party coalitions.

5. PDS

The successor party to the East German communists, the Party of Democratic Socialism is led by Gregor Gysi. The PDS currently holds 30 of the 672 seats in the Bundestag. An SPD-PDS-Green coalition force could succeed in beating the CDU in 1998, although the SPD is divided about bringing the PDS into the political mainstream. A major problem in this relationship could be the poor image that the PDS still has both among SPD parliamentarians and the general public. Although the PDS has repudiated the regime of former Communist Party leader Erich Honecker, many present PDS parliamentarians were involved in the oppressive regime of the former German Democratic Republic.

C. Government Prospects

Some recent reports have indicated that Mr Kohl's "political good fortune" could be coming to an end for a number of reasons:

- Business confidence is falling as forecasts for 1996 predict economic growth of only 1-2 per cent and a record budget deficit of 3.5 per cent;
- Unemployment has risen to a post-War record of 4.1 million (10.8 per cent of the potential workforce in the whole of Germany and 16.8 per cent in eastern Germany alone);
- The coalition government had been put on the defensive by the emotive issue of European economic and monetary union, with the opposition SPD playing on voters' fears that the strong Deutschmark would be replaced by a weaker European currency;
- The Finance Minister Theo Waigel's plans to lower business taxation were voted down in the Bundestag;
- There was resistance among the more conservative CDU members to a government agreement of 7 November 1995 to lengthen shop opening hours;

Research Paper 96/28

- Prospect of complaints about Germany's contributions to the EU budget and to the cost of reconstruction in Bosnia.

These arguments were countered by reports which noted the Chancellor's successful foreign and European policy achievements at the end of 1995. These included:

- the naming of the future European currency as the Euro, which was largely a German initiative;
- a three-year transition period between launching the single currency and its full integration in the year 2002;
- the decision on which countries can join EMU to be taken in 1998;
- the independent European Central Bank based in Frankfurt;
- a successful meeting with French President Jacques Chirac in which they established common cause on European integration;
- German military deployment in Bosnia;

D. German Views on Economic and Monetary Union

1. CDU/CSU

The Government has insisted on strict adherence to the Maastricht economic criteria for EMU. Chancellor Kohl told the CDU annual conference in October 1995 that Germany's post-war democracy would be in danger if there were an unstable and inflation-prone single currency. This also had political and historical significance, he insisted, recalling how inflation had destroyed public faith in democracy before Hitler came to power in 1933:

... it is not some German hysteria if we stress again and again ... that the Maastricht Treaty stability criteria must be maintained and not questioned. This is a question of the very destiny of German democracy ...¹⁷

Below are summarised extracts on EMU from the joint Franco-German paper of October 1995 on "the new stage in building Europe":

¹⁷ *Independent*, 17 October 1995.

Monetary union will protect the European economy from international exchange rate fluctuations and improve their competitiveness on world markets. The harmonisation of legal and fiscal provisions within the Single European Market will be continued in order to create equal competitive conditions for companies.

Under the provisions of the Maastricht Treaty, economic and monetary union will introduce a balanced, ordered and stability-oriented European economic, financial and monetary policy. Only such a policy can secure the long-term basis for growth, prosperity and employment.

The convergence criteria set out in the Treaty and the deadline of 1999 must be observed.

Once monetary union has been achieved, it will result in the maintenance of a stability-oriented economic and monetary policy. Those member states which do not accede to monetary union in 1999 must be vigorously urged to join as soon as possible. It is essential for their monetary policy to be coordinated with that of the Union.

The implementation of economic and monetary union serves fundamental political and strategic aims. A single currency and a common central bank are absolutely essential to completion of the Single European Market and achieving them represents a decisive step on the path to political union.¹⁸

The Finance Minister Theo Waigel, though firm on the principle of EMU, has expressed some caution about the Maastricht timetable, saying that it will depend on the ability of EU member states to fulfil the criteria. His proposed "stability pact for Europe" would force member states moving to EMU to cut their annual budget deficits to 1 per cent of GDP in times of normal growth, and he anticipates "growth with inflation of less than 2 per cent".¹⁹ Insisting that he is an enthusiastic EMU supporter, Mr Waigel said in an interview with the *Financial Times* that "No other country has such an interest in free competition, free export markets and a large internal market".²⁰ He attributed the average EU inflation rate of 3 per cent to the Maastricht Treaty (TEU), comparing the present rate with that of 13 per cent ten years ago. Worried about the welfare reform crisis in France, Mr Waigel added that EMU without France would be inconceivable.

At the end of January, amid reports that EMU would be impossible to achieve even for member states such as Germany and France, the German Government announced a co-ordinated plan with the French Government to revive their economies and keep the EMU timetable on track. Mr Waigel announced a 50-point action programme for investment and jobs, which included tax reform and widespread privatisations, with the aim of reducing public spending from just over 50 per cent of GDP to 46 per cent by the year 2000.²¹

The Bavarian CSU leader and state premier Edmund Stoiber has argued for delaying EMU rather than easing the convergence criteria. The party now finds itself out of line with the

¹⁸ *Frankfurter Allgemeine Zeitung*, 11 October 1995.

¹⁹ *Financial Times*, 11 December 1995.

²⁰ *ibid.*

²¹ *Financial Times*, 31 January 1996.

Chancellor on the matter of the timetable. At a European strategy discussion in mid-January, Mr Stoiber expressed his fear that a future core EMU area could be too small and that if Italy, for example, were not included, it would have to be linked to Germany by some other system, similar perhaps to the earlier European Monetary System.²²

2. FDP

The FDP is a firm supporter of EMU and the party spokesman on the EU Helmut Hausmann has pointed to his party's and Chancellor Kohl's growing isolation within the ruling coalition because of their unequivocal support for it.

3. SPD

The SPD has generally firmly supported economic and monetary union but at the end of October 1995 the then SPD leader Rudolph Scharping called on Bonn to protect German interests by taking a tougher line on EMU and asked for a delay in implementing the single currency until after the year 2000. His rival Gerhard Schröder also recommended a delay in introducing a single currency until enough member states are able to join. Subsequently, dismissive remarks about EMU by Mr Scharping and a party slogan proclaiming "Deutschland über alles" in a populist campaign against EMU by 1999 was described as a "spectacular U-turn".²³ Mr Scharping is reported to have said:

A stable currency has absolute priority over any timetable. Whether a common currency comes in 1999 or a bit later is not decisive. It is more important that economic stability is guaranteed. Only then can we give up our D-mark.²⁴

Mr Schröder has described the Euro-currency as "Monopoly money". The anti-EMU stand from the leader and would-be leaders has exacerbated the internal confusion in the party and commentators believe that it is not a matter of economic policy but political survival: the party needs a national issue on which to fight.

Oskar Lafontaine has asked for a delay in the implementing timetable for EMU rather than accepting a programme that could lead to recession throughout Europe.²⁵

4. Bundesbank

²² *Frankfurter Allgemeine Zeitung*, 18 January 1996.

²³ *Independent*, 2 November 1995.

²⁴ *ibid.*

²⁵ *Financial Times*, 13 December 1995.

Hans Tietmeyer, the Bundesbank President, is a firm supporter of adhering strictly to the Maastricht timetable for EMU, which would mean introduction of the final stage by January 1999 at the latest. Gerhard Häusler, a member of the Bundesbank's directorate, was sceptical about the method of introduction of the single currency as a *fait accompli*. He did not think this would be popular with the electorate. The FT report of his remarks continued:

The Bundesbank's newly expressed concern is that use of the single currency for non-cash transactions in the corporate and banking sectors - 90 per cent of all financial transactions - will be introduced too hastily after 1999. The Bundesbank wants to keep such transactions denominated in existing currencies, including the D-mark, until 2002-3 - the planned date for the launch of Eurocurrency notes and coins.²⁶

The Bundesbank will in due course give its opinion on which member state economies satisfy the Maastricht criteria and this recommendation will influence German political and public opinion on the merits of the move to EMU. A negative opinion from the Bundesbank is unlikely to be overruled by the Chancellor but a positive recommendation might not be enough to convince an increasingly sceptical Bundestag to vote in favour of the move. The Bundestag passed a resolution on EMU on 2 December 1992 at the same time as it voted on ratification of the TEU. The resolution provided for a parliamentary veto on Germany moving to the third stage of EMU if Germany and other member states were not performing well enough economically according to the established criteria. This was described by the German Government as an additional safeguard against any attempt to ease the EMU criteria but was viewed elsewhere as something closer to a "legally questionable back-door veto on currency union".²⁷ The parliamentary vote on entering the final stage will take account of the Bundesbank's opinion and will be based on the same assessment criteria as those to be used by the EU Economic and Finance Ministers.²⁸

5. Banking and Industry

Industrialists generally fear a loss of competitiveness in some important European export markets if the single currency introduced by a hard core of EMU countries (the CDU/CSU proposal put forward in 1994) appreciated in value against the currencies of those outside EMU. Others in the banking sector fear a weak, rather than a strong, single currency. Those in banking and industry would prefer a delay in implementing EMU and according to a survey by the German Chamber of Commerce, only one in eight German companies had made preliminary preparations for EMU. According to the *European*²⁹ an exception would be made to allow German savings banks to continue using Deutschmarks after the move to a single currency. This would make the *Sparkassen* the only banks in the EU not to operate in Ecus for interbank and central bank transactions after the transition to a single currency.

²⁶ *Financial Times*, 29 September 1995.

²⁷ *Daily Telegraph*, 3 December 1992.

²⁸ Article 3 of the resolution.

²⁹ 19 October 1995.

6. Public Opinion

Surveys suggest that roughly two-thirds of the German public are opposed to a single currency and the loss of the Deutschmark. An opinion poll in the *Handelsblatt* at the end of October 1995 gave 27 per cent in favour of EMU and 66 per cent against in September, a fall from 34 per cent in favour in June 1995. A poll in January 1996 gave 34-36 per cent of Germans in favour of EMU.

II France

A. From Mitterrand to Chirac

The first few months of 1995 were dominated by the presidential elections, as the ailing President Mitterrand prepared to hand over power after 14 years of socialist rule. The first round of the elections was held on 23 April and the second round on 7 May. The winner was the Mayor of Paris and former Prime Minister Jacques Chirac (of the Gaullist Rassemblement pour la République party) with 52.6 per cent of votes in the second round (only 20.8 per cent voted for him in the first round). The Socialist candidate Lionel Jospin came second with 47.4 per cent of the vote in spite of a series of poor local and regional election results and only 14.5 per cent in the 1994 European Parliament elections. The Gaullists now control over 80 per cent of seats in the Assemblée Nationale, two-thirds of the Senate, 20 out of 22 regional councils, four-fifths of departmental councils and most of the big towns.

Domestic issues such as unemployment and poverty were campaign priorities and Mr Chirac made a number of promises which have since come back to haunt him. These were to raise public-sector wages, boost pensions, encourage job-creation, increase spending, give more help to farmers and provide more teachers, and all this while also cutting taxes and tackling the 1994 budget deficit of 6% of GDP. His campaign was based on a promise of "profound change" and a "break with the past". These pledges raised expectations which have been largely unfulfilled and President Chirac has been forced to reverse many of his policies in the face of economic realities. After only a few months in office, there were already rumblings of public unrest over the new Government's social and economic policies. The need to cut public spending was evident during summer 1995 and seemed to contradict earlier vote-catching policies. With over three million unemployed, an emergency plan to help 70,000 jobless was brought in and the legal minimum wage was raised, but VAT was raised to 20 per cent and petrol tax was increased to help pay for these measures.

B. Chirac's European Policy

The subject of Europe was not much in evidence in the early campaigning for the first round of the presidential elections, which was perhaps surprising considering that some 49 per cent of the French electorate had voted against the Maastricht Treaty in 1992. Mr Chirac capitalised on a growing anti-European sentiment towards the end of the year by making a

referendum on the outcome of the 1996 Intergovernmental Conference, along with the reduction of long-term unemployment, his main platform. He also supported a rapid European intervention force, a new relationship between France and NATO and a transatlantic charter to reinforce solidarity between France and the US.

Mr Chirac welcomed the opening of borders introduced by the Schengen agreement but also expected "tighter control of migratory flows" through strengthened inter-governmental co-operation. Although once opposed to a single currency, President Chirac maintained that he was a "sincere convert to the cause of European economic and monetary union".³⁰ He promoted the aims of job creation and entry into the single European currency, although many saw these two goals as irreconcilable. He wavered on a date for EMU (saying on the one hand that it ought to be in place by 1999 but also that it was not clear when it would happen), and he did not clarify his position on the need for a referendum on it. At the time of his election, the *Financial Times* summed up Mr Chirac's European career as follows:

Before the 1981 election he was anti-European; in 1986-88 he ratified the Single European Act - which provided for the free movement of goods, services, people and capital by January 1 1993 - and in 1991-92 he supported the Maastricht Treaty; today he hints at a new flirtation with Euroscepticism.³¹

The *Sunday Times* was sceptical about an alliance with Britain over Europe: "Though Chirac speaks warmly of Britain and is regarded as a potential ally against German-dominated federalism, he envisages no fundamental change to the bedrock Franco-German alliance".³²

The problem was and has continued to be in separating the campaign rhetoric of 1994/95 from present policy in the face of France's real economic and social problems. In the early days of the election campaign there did not appear to be much difference between the European policy of Chirac and his first round rivals, Edouard Balladur and Lionel Jospin. There were no commitments to moves towards federalism, all three believed in the Franco-German relationship as the motor of European integration, and Chirac at least seemed to support the view that there could be further expansion of the Union to the East without reforming the Common Agricultural Policy.

President Chirac appeared to favour the British idea of a flexible, multi-speed Europe of sovereign states and inter-governmental co-operation, but has also supported the Franco-German "core" at the centre of the Union. Support for a common foreign and defence policy has not been reconciled with the sovereignty issue or how France would deal with its own independent nuclear deterrent if a common defence system were established. He has not explained how the Union could be enlarged without reforming the CAP, from which the French benefit greatly.

³⁰ *European*, 21 April 1995.

³¹ 26 April 1995.

³² 23 April 1995.

Among Chirac supporters, there are both strong anti-Maastrichters like the President of the Assemblée Nationale Philippe Séguin (who claims to be pro-Europe but anti-Maastricht) and others who support trade barriers, a single currency and a single European defence and foreign policy. Mr Séguin is anti-federalist and in favour of more involvement for national parliaments in Community decision-making. He objected to the German idea of a "hard core" of EU countries which would press ahead with integration leaving other member states to catch up later because of the political divisions and inequalities this might create.³³

C. Attitudes to EMU

The notion that the EMU conditions cannot be relaxed or the deadline postponed is being challenged from all political directions, as unemployment and the strains of Chirac's tight monetary policy increasingly arouse both public anger and political opposition. The perception among many in the French Parliament that the Government has accepted EMU as an irrefutable political dogma has resulted in internal government divisions and opposition attacks on government intransigence for its perceived obsession with matching German Government enthusiasm for completing EMU on time.

The Prime Minister Alain Juppé has confirmed France's commitment to EMU in spite of doubts expressed by the Foreign Minister Hervé de Charette and former president Valéry Giscard d'Estaing, who have proposed that the Maastricht conditions be "softened". Attempts by Mr Juppé to bring ministers back into line were further shaken when the Industry Minister Franck Borotra said that if he had to choose between the Maastricht criteria and jobs, he would choose more jobs.³⁴ Philippe Séguin, sceptical about the Maastricht timetable for EMU, would like a return to a pre-Maastricht era and to the Franco-German alliance as the guarantee of a future single currency, but presumably under different conditions to the present ones. Together with the Gaullist Charles Pasqua, Séguin has formed a lobbying group called "Demain la France" (France Tomorrow) which intends to bring together those politicians, academics and party rank and file who are concerned about the Government's policy on elements of the Treaty on European Union.

A range of industrialists and bankers have expressed opposition to the current EMU timetable. The head of Peugeot, Jacques Calvet, has called the Maastricht Treaty "dead". Marc Viénot, head of one of France's biggest banks, the Société Générale, has said that the chances of most member states meeting the criteria for EMU are "negligible" and the timetable set out in the TEU should be renegotiated. He also commented:

If there is a basic political accord between France and Germany on how to apply the spirit of the Maastricht Treaty ... we will be able to conceive a way to construct convergence and the single currency, irrespective of the state of the various economic indicators.³⁵

³³ Mr Séguin's views on European integration are summarised in Library Research Paper 95/27, *Towards the IGC: the emerging agenda*, 28 February 1995.

³⁴ *Independent*, 26 January 1996.

³⁵ *Independent*, 24 January 1996.

In a meeting with Chancellor Kohl on 12 February 1996, Mr Juppé confirmed the Government's "determination to respect the EMU timetable and the convergence criteria".³⁶ However, he was opposed to proceeding to the final stage of EMU if only France and Germany were in a position to do so, since the TEU required a majority of member states to have satisfied the criteria. He predicted that a number of member states would be ready by 1999 and for those who were not, the Treaty provided other deadlines.³⁷

D. Unrest over Welfare Reform

In order to meet the government debt and borrowing convergence criteria for EMU Alain Juppé announced planned welfare cuts to Parliament on 15 November 1995. They aimed to reduce France's welfare spending (some 10 per cent of GDP), halve the total social security deficit of over FF60 billion (£7.8 billion) in 1996 and eliminate it completely by 1997.

The following table shows the extent of the social security deficit over the last four years:

Social Security Deficit

FFrbn	1993	1994	1995 est	1996 (post reform)
Health insurance	27.6	31.6	36.4	12.3
Pensions	39.5	12.8	14.7	1.0
Family allowances	+10.7*	10.4	13.3	4.8
Total	56.4	54.8	64.4	18.1

*1993 surplus on family allowance, all other figures are deficit ³⁸

Welfare spending and provision have been controlled by a council composed of employers, unions and doctors. Under the proposed reforms the council would become subject to the approval of the Senate and Assemblée Nationale, which would set national spending ceilings. Some hospitals would have to be closed and a new tax would be introduced to help pay off the welfare system's accumulated debts of FF250 billion. There would be measures to eliminate welfare and pension privileges for public sector employees, the charges for hospital stays would be increased and a nominal charge for prescriptions imposed.

³⁶ *Le Monde*, 14 February 1996.

³⁷ *ibid.* Other provisions are made in Article 109k for member states which do not fulfil the criteria.

³⁸ *Financial Times*, 25 November 1995.

The French social security system, Sécu, incorporates all spending on health and social security benefits and is administered outside the state budget. The secretary-general of Sécu, Jean Marmot, has accepted that the present situation cannot continue to be financed on credit. The trade unions want the system to be part-funded from the central budget but do not want to lose their role in its administration. The employers are afraid that a change in the funding arrangements could mean that they will have to contribute more. In a nationwide debate organised by the Government in October 1995 there was no consensus as to how health and welfare spending could be reduced. The *Independent* expanded on the proposed reforms:

It is widely predicted that benefits and allowances, which are mostly neither taxed nor means-tested, will be considered as income and taxed accordingly. There is talk of a temporary increase of 1 per cent in the 'social charge', roughly equivalent to a National Insurance contribution, which is paid by everyone in work, and of means-testing family allowances. Regulations for claiming unemployment and housing benefits may be also tightened.

Some of the most contested changes could be in health spending. It is already known that charges for hospital stays will be going up by 15 per cent. GPs may have to forgo a pay increase next year. A nominal charge of 5 or 10 francs for prescriptions, or for each packet or bottle of medicine, has been mooted, as has a one-off charge to GPs for setting up in urban areas, where ministers believe there are too many doctors.³⁹

The cuts have had repercussions in other areas of public service, such as higher education, air traffic control and within SNCF, the state railway system. There have been student demonstrations over the lack of teachers, an air traffic controllers' strike and on 24 November 1995, nearly all the 180,000 SNCF workforce stopped work to protest against proposed cuts and productivity measures. One of the more contentious issues was a plan to extend the length of civil service pension contributions from 37 1/2 years to 40 years, the same as in the private sector. The *Financial Times* commented on the various reactions to the proposed reforms:

Although the opposition from some trade unions has been fierce, one of the few pieces of good news for Mr Juppé is that the movement is not united in its approach to the welfare reforms. Force Ouvriere, one large union federation, is predictably furious about the reforms, which threaten its vested interest in running the health insurance system in conjunction with the employers. (...) But Mrs Nicole Notat, the secretary-general of the CFDT union federation, has publicly welcomed the changes in the health insurance system.

(...)

Mrs Notat, who has been trying to steer her federation towards a more moderate line, complained that many trade unionists were showing a kneejerk reaction. She says: 'When in Germany the central DGB federation negotiates with a conservative government on the future of the health system, no one raises the question of treason. When in Italy the three unions negotiate pension reform with a centre-right government, no one dares say this is abnormal.'

Also under fire Mr Claude Evin, a Socialist former health minister, who was quick to praise Mr Juppé. However, he was brought to heel by Mr Lionel Jospin, the party leader. The

³⁹ 7 November 1995.

Socialists have now produced an official reaction which broadly condemns the Juppé reforms for accentuating injustices in the funding of French welfare, although it also appears to endorse the notion of longer pension contributions. The welfare issue is causing the left wing of the Socialist party to rethink its earlier welcome for Maastricht. Mr Julien Dray, a leftwing Socialist MP, told the National Assembly last week: 'If the fight against these claimed deficits stems from the Maastricht convergence criteria, if the French health system is to be henceforth under the purview of Mr Theo Waigel ... then I say that tomorrow or the day after tomorrow our citizens will rightly say they have had enough of this European construction.'⁴⁰

In the face of the strikes, Mr Juppé made some minor concessions by abandoning two public sector reform measures which were in fact financially marginal to the welfare reform programme overall. He agreed that SNCF rail and RATP (Paris) metro/bus drivers would continue to be able to draw full pensions at the age of 50 and he suspended the special commission study into lengthening pension contributions for state employees generally. Although this means that reform of the public pension system looks less likely, this had not been in the Prime Minister's overall calculations for reducing the social security deficit in any case and he continued to pursue plans to reform the system generally through reforms to health insurance, family allowances and pensions.

On 21 December Mr Juppé met Government ministers, trade union leaders and employers' representatives at a "social summit" to discuss economic priorities. It was hoped by the unions that this summit would be similar to the 1968 emergency round-table discussion which produced the so-called "Grenelle accords". These raised the minimum wage, increased pay for all workers and reduced working hours. The meeting did not turn out to be a Grenelle-2, however, with Mr Juppé agreeing only to discuss employment and not welfare reform. He promised three further social summits before summer 1996 to discuss youth employment, family policy and working hours, but refused to suspend the new social security tax due to come into effect in January. He announced new measures in an attempt to restore confidence in the economy, which included help for the construction industry, increased consumer spending, relieving the burden of personal taxation and a moratorium on deductions from pay.

Street demonstrations continued after the summit, stopped after the new year and may resume in the coming weeks as public anger again threatens the unpopular Chirac reforms.

E. French Withdrawal from the Schengen Agreement

The French Government has been out of step with EU partners over the question of border controls. The Schengen Agreement to remove all border and passport controls between the signatory states (France, Germany, Benelux, Spain and Portugal) came into effect on 26 March 1995 for a trial period of three months until the end of June 1995 and was reviewed

⁴⁰ 25 November 1995.

Research Paper 96/28

at a meeting in Brussels at the beginning of July 1995. At this point Alain Juppé announced that external border controls were not secure enough and that the Agreement was not working as it ought to. He instructed the European Affairs Minister Michel Barnier to request an extension of the trial period for a further six months, during which time French border controls would be maintained until the system of external border policing had improved.

Mr Juppé was critical of the way some EU consulates had been issuing visas for the Schengen area and maintained that drug seizures in northern France had increased by 58 per cent because of lax attitudes towards drugs in the Netherlands. There was disagreement both in France and elsewhere over the request for a six month period of grace. Belgium, the Netherlands and Germany were not in favour of extending the trial period. The Assemblée Nationale called for a delay but the Senate voted for immediate ratification. The latter view was supported by the Foreign Minister Hervé de Charette and by Michel Barnier, but opposed by President Chirac, the Interior Minister Jean-Louis Debré, who was worried about drug trafficking, and the anti-European National Front leader Jean-Marie Le Pen.

France insisted on unilaterally maintaining border controls, and in September 1995, a terrorist bombing campaign in Paris led Mr Chirac to announce a further tightening of police controls. This time he received the sympathy, if not the support, of some of the interior ministers of other Schengen states. The other states insisted, however, that full implementation should go ahead as planned on 1 January 1996. The Dutch Government announced a new bill to improve cooperation in the fight against drug trafficking. The French Government was to a certain extent reassured that its partners were trying to tackle the higher risks posed by drugs, crime and terrorism, and there were hopes of an imminent end to the impasse. However, by the end of 1995, not only the French but also the Spanish were still imposing checks, in the Spanish case at border towns with France in order to control the illegal immigration of north Africans from France.

At a Schengen meeting on 20 December 1995, the Belgian Interior Minister Johan Van de Lanotte was optimistic that France would rejoin Schengen on 26 March 1996, the anniversary of its trial implementation. Michel Barnier maintained, however, that France might continue to invoke Article 22 of the Agreement, the safeguard clause which has enabled it to retain border checks in view of the continuing threat of terrorism. Paris has insisted on improvements to external border controls and to the Schengen Information System (designed to help police cooperation among the member states). Conceding that asylum and readmission procedures were working better, the French maintained that there had not been enough progress in the fight against drug trafficking. Mr Barnier was optimistic, however, that progress would be made at an Anglo-German-Dutch summit on 7 March 1996.

Whether or not this will signal an end to the French "opt-out" remains to be seen. Mr Barnier has said that if the threat of terrorism were reduced, France would "reestablish a situation in total accordance with the Convention at airports within a few weeks".⁴¹

⁴¹ *Agence Europe*, 22 December 1995.

III EMU and the Intergovernmental Conference

The IGC will examine certain Treaty provisions and submissions from member states and the EU institutions on the policies and organisation of the Union. It will take account of the preliminary examination of these submissions by the Reflection Group set up by European Councils in Ioannina and Corfu in 1993⁴².

The Reflection Group concluded in its final report:

It goes without saying that this planned agenda is likely to be supplemented, in accordance with Article N, by other topics raised by the member states or the institutions.⁴³

The IGC agenda does not appear, therefore, to be formally fixed and might develop even as the Conference is in progress, although there will probably be pressure not to prolong the Conference for too long by adding to the agenda. Apart from the political confusion or stagnation that this might cause, it could also be problematic for the next phase of the enlargement programme due to begin six months after the end of the Conference.

The Treaty on European Union does not specifically require EMU or the single currency to be discussed at the IGC and the Reflection Group did not discuss it in any detail in its deliberations. The British Government have assumed that it "will not be raised, but that it cannot be excluded".⁴⁴

The TEU implies that EMU might be considered in the context of the IGC, if not at the IGC itself. Article 109j.3 stipulates that "the Council, meeting in the composition of Heads of State and Government, shall, acting by a qualified majority, not later than 31 December 1996" decide whether a majority of the member states fulfil the "necessary conditions for the adoption of a single currency" and "whether it is appropriate for the Community to enter the third stage". The timing of this meeting and the requirement that the IGC be convened in 1996 would suggest that the two cannot be entirely separated.

Professor Helen Wallace, in written evidence to the Lords Sub-Committee,⁴⁵ commented on EMU and other important matters:

It should also be noted that in principle the IGC has not been convened to discuss the several important policy issues facing the EU, eg when and whether which member states move to EMU, how far cohesion and indeed the wider budgetary arrangements are sustainable, how

⁴²The work of the Reflection Group is considered in Library Research Papers 95/76 and 95/123.

⁴³*Reflection Group's Report*, 5 December 1995, second part, p.2 (SN 520/95 (REFLEX))

⁴⁴Qu. 71, Michael Jay in evidence to the Lords Sub-Committee on the 1996 IGC, HL Paper 88, 1994-95.

⁴⁵p.106.

Research Paper 96/28

to handle CAP reform for a much larger EU and so forth. Nonetheless these continuing areas of sharp discussion are bound to hover over the IGC, even if not part of the formal agenda.

Kirsty Hughes, Head of the European Programme at the Royal Institute of International Affairs, comments in an article on the IGC:

... although EMU is not on the IGC agenda, it has a strong background presence and may influence negotiations between the French and German Governments, in particular with regard to their positions in the IGC. The issue of EMU could on the one hand prompt more progress than currently expected at the conference, or, on the other hand, it could lead to a more minimal approach to the IGC until the position on EMU is clearer.⁴⁶

A discussion of EMU at the IGC cannot be ruled out. If a delay in implementation is agreed, then the conditions set out in the TEU might need to be revised. Under Article N of the Treaty any amendments would have to be ratified by all EU member states before coming into force.

The IGC opens in Turin on 29 March 1996.

⁴⁶ *International Affairs*, Volume 72, Number 1, January 1996.

VM/JML

Papers available on the same subject:-

European Communities

- | | |
|---------------|--|
| 95/123 | Towards the IGC: Weighing the Options |
| 95/92 | The Social Chapter |
| 95/80 | Gibraltar |
| 95/78 | Metrication and the sale of goods |
| 95/76 | Towards the IGC: Enter the Reflection Group |
| 95/45 | Towards the IGC: Developing a Common Defence Policy |

International Affairs

- | | |
|---------------|--|
| 96/16 | The Scott Inquiry: Approaching Publication |
| 95/128 | Elections in Russia |
| 95/116 | The Chemical Weapons Bill [Bill 2 of 1995/96] |
| 95/112 | Hong Kong (Overseas Public Servants) Bill [Bill 1 of 1995/96] |
| 95/102 | "Not peace, but a big step forward": Bosnia in October 1995 |
| 95/101 | The United Kingdom and Nuclear Weapons |