

Volcanic Macron forces Germany to come clean on its real EU agenda

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Emmanuel Macron in Berlin. Some Germans are delighted by his victory but don't know how to handle this volcanic force

Emmanuel Macron's lightning conquest of France has put Germany in an awkward spot.

Berlin may have to start fleshing out its European rhetoric and contemplate a Franco-German grand bargain on the future of the EU, or risk serious consequences down the road. Excuses are running thin.

French voters have picked an apostle of Europe and an arch-defender of the Franco-German axis. While this is welcomed with jubilation by some in Berlin, it raises thorny questions that others would prefer left unanswered.

Charles Grant from the Centre for European Reform says Mr Macron's strategic gamble is to restore French credibility, and then to lever this to extract a "new concordat on the euro" from Germany.

He plans Nordic labour reforms, easier collective bargaining rules, and the sort of tax shake-up that German leaders have long demanded. It is the French riposte to the Hartz IV reforms that - supposedly - lifted Germany from its sickbed a decade ago.

The quid pro quo is that Berlin must agree to eurozone fiscal union, and cut its corrosive current account surplus - now 8.6pc of GDP and in breach of EU rules.

"If France is not reformed, we will not be able to regain the confidence of the Germans," Mr Macron told *Ouest-France*. "After that Germany must ask whether its own situation is tenable. It is accumulating surpluses which are neither good for its own economy nor for the eurozone."

He wants a eurozone finance minister and budget, with joint debt, and a banking union with shared deposit insurance, all legitimized by a new parliament for the currency bloc. It implies a unitary eurozone superstate.

This calls Berlin's bluff. The German elites often argue that they cannot accept such radical proposals as long as other eurozone states scoff at budget rules and fail to put their house in order. Whether Germany's real motive is to protect its mercantilist interests as a creditor power and run monetary union to suit itself is conveniently never put to the test.

As French economy minister, Mr Macron was an acerbic critic of the austerity regime imposed on the eurozone by Germany. He decried the current half-way house of an orphan currency with no EMU government to back it up, and argued that was is folly to try to close the North-South gap in competitiveness by imposing all the burden of adjustment on the weakest high-debt states. Such a policy misdiagnoses the cause of the EMU crisis - capital flows, rather than fiscal or moral failure - and leads to a deflationary vortex for the whole system.

Mr Macron has allies in Germany. The Social Democrats (SPD) have some sympathy for his Keynesian view. A few want a new 'Elysee Treaty' to relaunch the broken Franco-German engine, with joint bonds as a stepping stone to 'eurobonds'.



German idealists want a new Elysee Treaty along the lines of De Gaulle-Adenauer pact in 1963 that bound France and Germany together. They are rare

Marcel Fratzscher from the [DIW institute](#) in Berlin says Germany has an investment deficit of €100bn a year after a decade of misguided, slash-and-burn, cuts. Its deformed policy regime is just as serious a threat to the survival of the euro as France's lack of reform.

But that is a minority view. The Handelsblatt accused Mr Macron of "Teuton-bashing" over the trade surplus. The German Council of Economic Experts holds defiantly to the national view that trade surpluses are proof of virtue. It sees EMU debt-pooling as a slippery slope towards a "Transferunion".

Chancellor Angela Merkel has hinted since the French election that Berlin must offer Mr Macron some comfort. Peter Altmaier, the chancery chief, said it was [not the end of the world](#) if France fails to meet the 3pc deficit ceiling this year (it was 3.4pc last year), should this be needed to cushion reforms.

Yet there are limits. Mr Macron's plans would require a new EU Treaty, opening a can of worms that several states are determined to avoid. Berlin has no intention of sharing Italy's debts, whatever France does.

Germany's top court says EMU fiscal union and debt-pooling would require a change to country's constitution. "Politically, that is absolutely impossible," said Heiner Flassbeck, former economy minister and now at Hamburg University.

“Macron would have to be a magician to turn around the Christian Democrats on this. It is in their genes to think Germany is right on the substance of all this. I don't see much chance that they will do anything serious. They may agree to boost the Juncker Plan for investment and give away €20bn to calm the situation, but that won't make any difference,” he said.

“Francois Hollande was not able to get the Germans to change. I doubt that Macron will either. The only thing that will force Germany to budge is if the French and Italians form a coalition and threaten to leave the euro,” he said.

French journalist [Romaric Godin](#) said that Mr Macron is submitting to the “established order of monetary union” by agreeing to deliver on French commitments before Germany has done anything. “He is accepting the logic of unilateral adjustment. This is the very logic that has been such a failure since 2010,” he said.

Whether Mr Macron's reforms really go far enough to revive France is an open question. He plans to keep the retirement age at 62, badly out of line with EU competitors. The 35-hour working week will be modified but not abolished.

The French state will be cut from 55pc to 52pc of GDP, which would happen to some degree anyway at this phase of the economic cycle. A free-market ‘Thatcherite’ revolution it is not.

Nor is it clear whether he can push through his plans. While polls suggest that his En Marche! party has sufficient momentum to win a majority in the parliamentary elections in June, he still has to pick all 577 candidates.

Many are novices, and likely to face press scrutiny. The Socialists and Gaulliste Republicans have well-oiled party machines. They will regroup and fight back. The outcome may be some form of messy ‘cohabitation’

France is split on deep lines cleavage, Balkanized five ways. The scale of Mr Macron's 66:34 victory on Sunday is misleading. Blank protest votes - “Neither Plague nor Cholera” - jumped threefold to 11.5pc. The abstention rate jumped six points to 25.4pc.



Protesters calling for abstention to protest the choice of plague or cholera

Under-currents are better captured by the first round of voting, when 48pc backed eurosceptic parties from hard-Left to hard-Right. This is no validation of the EU Project.

The Front National's Marine Le Pen botched the final weeks of her campaign with confused messages over pensions and the French franc, but she still won 34pc of the vote. Five years ago this would have been deemed impossible. We now shrug off earthquakes a little too lightly.

Salman Ahmed from Lombard Odier says Mr Macron's victory buys only time for the technocrat elite. "The next five years may represent the last stand for the "globalist" worldview. If a new generation of centrists fail to deliver, the populists will return, fed by even stronger anger and resentment," he said.

This is what Mr Macron meant when he warned last week that the European experiment will blow up unless it is rebuilt on better foundations. "We have to listen to our people, and listen to the fact that they are extremely angry, and understand that a dysfunctional EU is no longer sustainable," he said.

Failure means "Frexit and the Front National Front again". The warning was directed straight at Germany.

