

CER Bulletin

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CENTRE FOR EUROPEAN REFORM



The meaning of Macron

by Charles Grant

Emmanuel Macron is a man of courage. During the first of his two visits to the CER, in November 2014, he said that France was divided between conservatives and reformers, rather than left and right, and that the Socialist Party could disappear. “We are more likely to get reform if moderate socialists join the centrists and the moderate centre-right,” he said. That was a bold comment from the economy minister in a Socialist government.

Macron left the government in August 2016, just after founding a movement called En Marche! Since declaring himself a candidate for the presidency in November, he has been lucky: the Socialist Party chose the hard-left Benoît Hamon as its candidate; the Gaullist candidate, François Fillon, has been damaged by stories of his family being paid for fake jobs; and the veteran centrist François Bayrou has thrown his weight behind Macron. Opinion polls put this 39-year old *ingénu* – whose political experience is just two years as an Elysée adviser and two years as a minister – ahead in the second round of the presidential election.

Macron is in some ways the heir of both Jacques Delors and Tony Blair, two convinced pro-Europeans who backed pragmatic and fairly liberal versions of social democracy. Like Delors – who went into politics to work for a Gaullist prime minister, Jacques Chaban-Delmas, and later became a Socialist finance minister – Macron is a political outsider who is neither left nor right. He has worked for the civil service, for Jacques Attali’s commission on how to reform France and for the Rothschild bank. Like Blair in his heyday,

Macron is young, fresh and charismatic, and a great communicator. And like Blair, he reaches voters who would not normally support a pro-EU, pro-immigration economic liberal.

A Macron victory would break the political mould of the Fifth Republic. Since 1958 France has been ruled by presidents who hail from the mainstream parties of left or right. No centrist has ever reached the Elysée. In 1995, opinion polls suggested that Delors would have won, if he had stood, though he would have been the Socialists’ candidate. If Macron wins, he will do so as an overt centrist without a traditional party machine.

Economically, a Macron presidency would offer France a real opportunity to reform. Nicolas Sarkozy and François Hollande achieved a few useful reforms but did not do enough. Fifteen years ago, French and German per capita incomes were at a similar level, but the average German now has an income 17 percent higher. Unemployment in France is nearly 10 per cent, against 4 per cent in Germany – and youth unemployment of 25 per cent is among the worst in Europe.

Image: Taken at the CER’s roundtable on ‘Brexit and the future of the EU’, London, September 9th 2016.

This economic *décrochage* (uncoupling) between France and Germany – reinforced by Angela Merkel's strength as a leader, and Hollande's weakness – matters for the EU. German policy-makers have lost their trust in and respect for France's rulers, and the Franco-German tandem, which once drove the EU forward, has lost momentum.

Macron wants reforms to both pep up France's economy and strengthen his position in Europe. He wants to lower the state's share of economic output from 55 percent of GDP – the highest in Europe – to 52 percent, and to respect the EU's 3 percent budget deficit rule. But he also wants to invest €50 billion over five years on modernising the state and on training (especially for unemployed youths). He plans to give France a Nordic-style labour market, with active labour market policies and benefits dependent on participation in training programmes; collective bargaining decentralised from industry level to company level; and a reduction of taxes on employment.

The French president holds huge powers, so Macron should in theory be able to reform the country, if he wishes. But in practice, all presidents have found reform difficult to pull off. As Macron discovered when he was a minister, vested interests, trade unions and party activists are stubborn and conservative. He managed to liberalise coach services, shopping hours and the legal profession, but wanted to do much more.

Macron will need progress on reform in order to energise his EU strategy. Only if he can get the French economy growing more rapidly – while respecting EU budget rules – does he have a chance of persuading Germany to do two things: first, rebalance its economy by boosting investment, consumption and imports, thereby aiding the weaker members of the eurozone; and, second, back his plans for eurozone governance. He wants a eurozone budget, overseen by a eurozone parliament and managed by a eurozone finance minister.

If Macron makes some progress on structural reform and budgetary discipline, Berlin might agree to borrow and invest a bit more, and, possibly, buy some of his ideas for the eurozone. The problem is that Germany's leaders will be reluctant to back domestic or European policies that run against the grain of traditional German economic thinking. German voters find the idea of a transfer union that subsidises supposedly profligate southern Europeans abhorrent. Germany's Social Democrats are rather more open to French (and Anglo-Saxon) economic thinking than is Merkel, but even if they win

office (see Christian Odendahl's article in this bulletin) they will not be able to ignore the orthodox views of many Germans.

But for all these difficulties, a Macron presidency would surely revitalise the Franco-German tandem. Germany does not like leading the EU on its own. In recent years France has been too weak to be a suitable partner and the UK has been distracted by Brexit. Meanwhile Italy, Spain and Poland have had neither the desire nor the capability to help Germany lead Europe. So Germany will jump at the chance of working with a France that has an energetic, pro-EU president, on issues such as defence, foreign policy and refugees.

Despite many links to the UK – the *Financial Times* and the *Economist* are among his cheerleaders – Macron takes a hard line on Brexit. Like Hollande and Merkel, he does not want EU-phobes like Marine Le Pen to be able to profit from Brexit by demonstrating that a country can leave and then thrive. He believes that maintaining the strength and resilience of the EU is more important than maximising economic ties with the UK. But he is also keen to maintain close bilateral ties on defence and security.

Though opinion polls put Macron ahead of both Le Pen and Fillon, he will find the final weeks of the campaign gruelling. He has never before run for elected office. Russia's media are recycling nasty rumours about his private life. Le Pen will do her best to portray Macron as a rich, out-of-touch, Brussels-loving, globalist banker. All his opponents will say – with some justification – that he is the candidate of the establishment of the now discredited Socialist Party.

This year, many lazy commentators have joined up the dots of Brexit, Trump and continental populists to predict the demise of liberalism, internationalism and the EU. A Macron victory would suggest they are wrong; political trends are seldom inevitable and strong individuals with convincing answers can break them. These days many voters care more about politicians' personalities than policies. A lot of them liked Boris Johnson (a leader of Britain's Leave campaign) and Donald Trump. Macron's personality, and notably his charm, calm authority and courage – he is certainly brave to praise the EU repeatedly – may well appeal to more voters than Marine Le Pen's simplistic remedies and bitterness.

Charles Grant
Director, CER



Can Martin Schulz beat Angela Merkel?

by Christian Odendahl

As the cliché goes, Germans like their politicians boring but reliable. Angela Merkel has steered Germany through various crises over her 12 years in office, and was on course to add another four after the forthcoming elections in September 2017. But former European Parliament President Martin Schulz has now put such certainties in doubt. His party, the Social Democrats (SPD), has closed a whopping 15 point gap with Merkel's Christian Democrats (CDU/CSU) in a matter of weeks, with both major parties now polling in the low 30s. Moreover, Germans prefer Schulz to Merkel as chancellor by 50 to 34 per cent, according to a recent poll. A Schulz government could well be leading the country by the end of 2017.

To blame the decline of Merkel and her party on her response to the refugee crisis is too simplistic. There are two other, arguably more important reasons, for the recent upset in the polls. First, sometimes Germans do want change. Seventy-one per cent think that Merkel has done a good job as chancellor, and yet, most still want Schulz to replace her – despite giving him a lower competence rating than Merkel. A majority of 50 to 39 per cent want the next government to be led by the SPD, not the CDU/CSU, a sign that there is *wechselstimmung* (mood for change) in Germany. But a desire for change does not explain the dramatic shift in the polls.

The most important reason is Schulz himself. A battered SPD, polling in the low 20s, needed a fresh face. Having spent most of his political

career in Brussels, Schulz is considered an outsider in Germany. That allows him to behave as an opposition politician, despite his own party being in coalition with the CDU. He is not associated with Gerhard Schröder's 'Hartz' reforms of the labour market and welfare system, which continue to take a heavy toll on the SPD's popularity, and which Schulz vows to change. Schulz seems new in German politics, someone who can deliver change and challenge consensus thinking, without seeming populist or unserious.

Schulz has an impressive curriculum vitae too, stretching from unemployed alcoholic to president of the European Parliament. Unlike Merkel, he is an emotional politician who seems to empathise with the concerns and fears of the

average German – and he speaks German with a Rhineland accent, which makes him appear less elitist. That the German financial newspaper *Handelsblatt* repeatedly called him unfit for office because he did not do the *Abitur* (Germany's equivalent to A-levels) only helps to emphasise this point in the eyes of the public.

The poll surge of the SPD has come at the expense of all other parties, with the exception of the pro-business Free Democrats (FDP). But with just above 30 per cent in the polls, Schulz's SPD would need coalition partners to govern. This is where its headache starts. The SPD will no longer be able to rule out a coalition with Die Linke (the Left party). Merkel has been in government for 12 years, and SPD voters and members want change. And the Left has lost its monopoly over protest votes to the Alternative für Deutschland (AfD) making it more suitable for government. Any attempt by the SPD to rule out a coalition with the Left would not be considered credible: 68 per cent of the public believe that the SPD would form such a coalition if the number of seats allowed, but only 30 per cent approve of it. Luckily for Merkel, ruling out a coalition with the AfD is obvious and credible.

Of all the realistic coalition combinations, two would be led by a Chancellor Schulz. If the SPD comes out ahead of the CDU/CSU, both could again form a 'grand coalition', this time under Schulz's leadership as head of the stronger party (an outcome that neither side really wants). Or he could, for the first time on the federal level, form a coalition with the Greens, the SPD's natural partner, and Die Linke, if the numbers allow. At the time of writing, this red-red-green or 'R2G' coalition is polling just below 50 per cent.

What would a Chancellor Schulz mean for Europe? Should Europe brace for a Germany that pushes ahead with federalist policies and makes the Brexit negotiations harder still for the UK?

The European economy would get a mild boost from a Schulz government. The SPD made equity and social justice the key themes of his campaign. He himself pointed to the injustices of the Hartz reforms that made the German labour market more flexible and unemployment benefits less generous. A more redistributive economic agenda would provide a boost to consumption and wages, which in turn would reduce Germany's savings surplus and help to rebalance the eurozone economy.

A Schulz government would also place greater emphasis on public investment. Within the EU, only Cyprus, Portugal and Ireland invest less

in public infrastructure as a share of GDP than Germany. And Germany certainly has the fiscal space to invest more, given that it ran a budget surplus of €23.7 billion in 2016 alone – despite the costs of the refugee crisis. Ramping up investment quickly is difficult for a country that has spent so little over 15 years. But by the time a Schulz government came to power, Germany would be better able to increase investment, and the SPD would surely make use of that – something that a majority of Germans support, according to a recent poll.

But Schulz would still run into the same political constraints as Merkel when it comes to the future of the eurozone. Risk sharing between countries or mutualisation of public debt remain highly unpopular in Germany, and despite his favourable comments about eurobonds in the past, Germany will not embrace them any time soon. Schulz may agree to a common eurozone investment budget or faster integration of capital markets, but probably not to comprehensive European deposit insurance or a European unemployment insurance scheme. That would not be much, but more than another Merkel-led government would be willing to concede.

On Brexit, a Schulz government would not be much tougher than a Merkel one. Most of what informs the German approach to Brexit is based on an assessment of its long-term national interests. Preserving the unity and stability of the EU-27 is the core of that interest, and would be pursued by Schulz as much as Merkel. And Schulz, like Merkel, is aware that a pragmatic deal that leaves the UK weaker but still a partner of the EU-27 in foreign and security policy is in the best interest of Germany and the EU. Whether Schulz would command the same authority among EU leaders as Merkel in brokering a final deal is of course an open question.

Regardless of who wins the elections in September, the nomination of Martin Schulz has already reinvigorated a muted German political debate. Under Merkel, Germans were happy being managed by a calm and rational – if not exactly inspiring – politician. But too much has happened under her leadership for Germans to happily continue with such a sedated democracy. Europe should hope that the German election campaign turns into a broad debate on Germany's role in Europe and the world. The arrival of Schulz has increased the chances that it will.

Christian Odendahl
Chief economist, CER



Playing defence

by Sophia Besch

Prime Minister Theresa May considers Britain's contributions to European defence to be one of her best moves in the Brexit negotiation chess game. But how could it help her win a favourable Brexit deal from the EU?

Crude blackmail would not work, and thankfully seems unlikely in any case. It is true that some Brexiters are asking why British troops should risk their lives for EU member-states that want to impose a 'punitive' Brexit deal on the UK. But May knows that any open threat – for example to withdraw troops from NATO deployments in Central and Eastern Europe if Poland or the Baltic states dig in their heels over freedom of movement for their citizens – would not just be unhelpful, but would also lack credibility.

Britain, unlike Donald Trump, knows that the value of collective defence and security is greater than the sum of its parts. During the EU referendum campaign, 'Brexiters' and 'Remainers' alike stressed the value of NATO as the bedrock of British security. And the UK government will continue to invest time and resources in Europe's defence, not only to protect its own national interests, but also to generate goodwill abroad as the Brexit negotiations unfold. Britain wants to show other allies (not least the US) its enduring or – as Brexiters argue – renewed ambition to be a global player.

Thus, in her 'Brexit speech' at Lancaster House in January, May said she was optimistic that Britain and the EU would come to "the right agreement",

because the EU needed the UK as a partner in matters of security and defence.

May knows that her negotiating position depends on the support of allies in the EU, so she has invested a lot of political capital in bilateral security and defence relationships lately. Following a Polish-British summit in December 2016, she announced that from April 2017 Britain would station 150 troops in Poland, near the border with Russia's Kaliningrad enclave. During the summit, Poland's prime minister, Beata Szydlo, sounded very positive about London's efforts to conclude a free trade agreement with the EU. But some EU capitals frown upon the British pursuit of bilateral agreements and partnerships. Berlin, Paris and others worry that the focus on exclusive deals between governments will undermine EU cohesion at a critical time.

May also wants to use the UK's 'special relationship' with the United States to gain political capital: she is offering to act as a bridge between the US and the EU. On a visit to Washington she managed to wrest a – reluctant – commitment to NATO from Donald Trump, while in Brussels she conveyed Trump's message that Europeans need to invest more in defence spending through NATO.

Many EU leaders, however, do not want the UK to be a go-between in their relations with the Trump administration. They see Trump's erratic approach to the EU and NATO as a real concern. If they are to spend more on Europe's defence, it is because they want to hedge against the risk of the US reducing its contribution in Europe, not because they want to cosy up to him. May would do better to work with other Europeans to channel defence spending into filling the most important gaps in their capabilities. In Brexit negotiations, playing the 'defence card' as an open threat would backfire: it would be considered an assault on core common interests and European values; and it would put the UK's own security at risk. Instead, London should make clearer how it aims to contribute to European security, prosperity and stability once it has left the EU.

Britain, like France, will still be a European nuclear power, and a permanent member of the UN Security Council. The global outlook of the British and the professionalism and training of their military personnel all contribute to European security (even if it is currently far from clear that the British armed forces can afford to stick to their ambitious defence equipment plan). The EU would benefit from Britain's input in combating the threats of terrorism in Europe, a belligerent Russia, an unstable southern neighbourhood, and the weakening of transatlantic relations and American security guarantees under President Trump. EU governments would be well advised to take a pragmatic stance on security and defence policy co-operation with the UK.

It is not just the EU that will benefit from cordial relations, however. Britain would also gain from European goodwill, and not just during the divorce negotiations: once the UK's exit has been negotiated, London will want to agree some form of association agreement on EU defence, for the sake of its own security. The less obstructive Britain is now, the more it can ask for voting and operational planning privileges in the future.

The EU's negotiating strategy is currently guided by one basic principle: Britain cannot be better off outside the EU than as a member. The EU hopes in this way to undermine eurosceptic movements in other member-states. Following this rationale, many EU member-states are quick to dismiss 'privileges' for the UK post Brexit, including giving it a vote in operational planning decisions or on European Defence Agency projects. Moreover, the EU is keen to establish 'strategic autonomy' on defence matters (the ability to operate and deploy independently). Today more than ever the EU is reluctant to make itself dependent on third states.

But in reality the EU cannot afford to lose British capabilities at a time when the European security situation has deteriorated significantly and there is a risk the United States might withdraw from the world. Close defence co-operation between Britain and the EU, guided strictly by shared interests, should be the end game for both sides.

Sophia Besch
 Research fellow, CER

CER in the press

The New York Times

14th March 2017
 "We have seen the ECJ being much more attentive to the political winds rather than being so legalistic, because of the recognition that the EU is at risk of collapse," said Camino Mortera-Martinez of the CER, describing the ruling [on head scarves] as a landmark decision.

The Times

13th March 2017
 Rem Korteweg of the CER, believes that Mr Wilders wins even if he loses. Put another way, a fractured, fragile pro-EU centrist establishment loses even if it wins, as France could be about to discover.

The Irish Times

11th March 2017
 "The West's policy towards eastern Europe so far has been one of relatively benign indecision," Ian Bond writes in a paper for the CER.

The Economist

23rd February 2017
 In a new paper, Charles Grant director of the CER notes that "both the UK and the EU-27 are placing politics and principles ahead of economically optimal outcomes."

The Telegraph

23rd February 2017
 There have also been fears that member-states angered by Brexit could try to put

pressure on British expats in revenge. Spain could ask British retirees to pay for their own healthcare, according to the CER's John Springford.

The Economist

9th February 2017
 In a paper for the CER, Alex Barker of the *FT*, puts the [Brexit bill] figure at anything between €24.5bn and €72.8bn. The government will struggle to explain why voters should be on the hook for payments made after Brexit.

The Sunday Times

29th January 2017
 Simon Tilford, deputy director of the CER puts it:

"The British economy has not weathered the Brexit storm. It is just that the calm before the storm has lasted a bit longer than many had assumed. There is no reason to think Britain will escape serious and permanent damage to its foreign trade and investment and hence living standards."

The Express

25th January 2017
 Mr Schulz plans to focus on social justice and equality, according to Sophia Besch, a research fellow at the CER. "He's going to have to prove himself over the next couple of months. He is an unknown quantity in German domestic politics," she said.

Recent events



Sylvie Goulard

6 March

Launch of 'Parliamentarians in Brexit talks: Bulls in a china shop?', Brussels
With Sylvie Goulard and Seb Dance

21 February

CER/Kreab breakfast on 'Can the euro area work without political union?', Brussels
With Poul Thomsen



Poul Thomsen



Julian Braithwaite

9 February

Breakfast on 'Britain and the World Trade Organisation', London
With Julian Braithwaite

2 February

CER/Kreab breakfast on 'How to found EU policy-making on scientific evidence', Brussels
With Carlos Moedas



Carlos Moedas



Julian King

1 February

Dinner on 'Making a success of the EU's security union', London
With Julian King

30 January

CER/Kreab breakfast on 'A plan for Europe's neighbourhood', Brussels
With Johannes Hahn



Johannes Hahn