

# Germany and Europe: Uncomfortable Leadership

Lord Green of Hurstpierpoint

Author, *Reluctant Meister: How Germany's Past Is Shaping its European Future*

Hans Kundnani

Research Director, European Centre for Foreign Relations; Author, *The Paradox of German Power*

Chair: Quentin Peel

Mercator Senior Fellow, Europe Programme, Chatham House

19 January 2015

The views expressed in this document are the sole responsibility of the speaker(s) and participants do not necessarily reflect the view of Chatham House, its staff, associates or Council. Chatham House is independent and owes no allegiance to any government or to any political body. It does not take institutional positions on policy issues. This document is issued on the understanding that if any extract is used, the author(s)/ speaker(s) and Chatham House should be credited, preferably with the date of the publication or details of the event. Where this document refers to or reports statements made by speakers at an event every effort has been made to provide a fair representation of their views and opinions. The published text of speeches and presentations may differ from delivery.

### Quentin Peel

A splendid sight: a nice full hall. Welcome, everybody. My name is Quentin Peel. I'm the Mercator Senior Fellow here at Chatham House, which means that I have a fellowship here, paid for by the Mercator Foundation. I will tell you the relevance of that in a second. Before I was at Chatham House, some of you may know, I was a correspondent for the *Financial Times* in many weird and wonderful places but, most notably relevant to this evening, both in Berlin (in the last four years) and in Bonn (20 years ago). One of my ambitions coming here and having a fellowship at Chatham House was to try and bring a better understanding of the continental debate on Europe to London, and especially the German debate. That's why tonight is actually very relevant to what I'm trying to do.

My dirty little secret is that part of my fellowship was also to try and write a book on Germany and Europe. Both of our distinguished speakers tonight have beaten me to it. Not only that, they've done rather a good job of it. So I'm filled with both admiration and a certain vicious jealousy about what they have done, and wondering whether there's any room left for me. Both have written books which I think should contribute a great deal to a better understanding of Germany and to actually doing precisely what I think is so necessary in this country: bringing the sort of thinking about Europe, European history and so on, back to London, where often it feels that it has been forgotten.

Both of my speakers are very well qualified to write their books on Germany. You will see the books here on sale. After the meeting, you're more than welcome: please, do buy their books, because I can assure you, having reviewed them both for the *Financial Times*, that they are really worth reading.

I've got one or two little bits of homework to do. One, this meeting is not under the Chatham House Rule: it is on the record. It will be live-streamed. People can comment and ask questions both live (and I will be encouraging you to do so) and via Twitter at #CHEvents or #AskCH.

As I said, both my guests here tonight are more than well qualified to write about Germany. Stephen Green, on my left, is a Conservative Member of the House of Lords, former minister for trade and investment, but I think most notably in his career and the heart of his career, at HSBC, where he was both chief executive and then group chairman. He was also chairman of the British Bankers Association, a trustee of the British Museum, and today is still chairman of the Natural History Museum. But he's also, and I think this is rather relevant to my reading of the book, an ordained priest in the Church of England. Somebody who, as he admits from the very beginning, has been fascinated by Germany and the German language ever since he was a schoolboy and sent to learn German in Bavaria. Actually, as I know very well from my time in Berlin, Stephen still has a flat in Berlin and is a very regular visitor there.

On my right, Hans Kundnani, who made the fatal mistake (like me) of being a journalist, in Berlin, before, a correspondent for the *Observer* but actually writing for quite a number of newspapers. Today he's the research director for the European Centre for Foreign Relations here in London, where he writes a great deal still about Germany, German foreign policy, German economic policy, but also a much wider area. He's already written on Germany before his present book: *Utopia or Auschwitz? Germany's 1968 Generation and the Holocaust*. Now he's written *The Paradox of German Power*. Hans is also an associate fellow at the Institute for German Studies in Birmingham and a regular speaker and commentator.

They are very different books. Stephen's book, *Reluctant Meister* – and I might ask him precisely where the title comes from – is really a broad sweep of history, but Hans' *The Paradox of German Power* is also very much about how history is relevant to Germany today. That's what they share in common. They're

also very complementary books. Stephen takes a much longer take on German history but actually we're coming down to the core question, which is Germany and Europe today. One last quote, Stephen, before I ask you to start: you say in your introduction, 'There is no culture on the planet greater than that of Germany. No country has contributed more to the history of human ideas and creativity. No country has been deeper into the abyss, and no country has seen a more remarkable redemption and renewal'. Tell us first what answers you found to that conundrum.

## Lord Green

I do think it is an extraordinary story of redemption and renewal. A good part of my book, the last third or so, focuses on that. If you go into Waterstones there are shelves of books on the Third Reich and the war, and latterly of course also on the First World War; relatively little on the deep history of Germany and relatively little on its new role in the new Europe. I think the deep history is important to its self-understanding and to the way it exercises its new role.

I called the book *The Reluctant Meister*. The 'reluctant' bit isn't a new thought; the *Economist* called Germany the 'reluctant hegemon' some months back. I didn't like the word 'hegemon' because I don't think it characterizes the way Germany exercises its influence in Europe, nor do I think it characterises its self-understanding in any useful way. But the reluctance is clearly there. I used the word 'meister' because it's a rather multi-layered word that has connotations from the crafts and apprenticeship world, from the musical world, latterly from the football world, which gives it a new cast. And as Quentin reminded me too, a poem that I do cite in the book is Paul Celan's famous poem which has got a refrain in it: *der Tod ist ein meister aus Deutschland* (death is a master from Germany). So it's a multi-layered word and that's why I used that title.

What I wanted to do was to capture something of the extraordinary story – necessarily telling the deep history to it – of the German presence in the new Europe. If you look at 1949, the start of the democratic experiment there with American blessing, there was frankly no reason, on the basis of human experience up to that point, to believe it was going to be successful. There was the Third Reich, there was the Weimar Republic, there was the Second Reich and absolutist states (working backwards). There was zero experience of successful democracy. And yet by any standards now, it seems to me that you've got one of the most deeply entrenched, unchallenged, working democracies on the planet. This was not something you could have taken for granted in 1949. I don't think we often enough step back to celebrate that and recognize what a remarkable story it is. Not only is it a deeply entrenched democracy, but it underwent the extraordinary challenge of reunification, of which more in a second.

The economic miracle of the postwar period, the 1940s and into the 1950s: well enough recognized. Quite how strong the growth of Germany in the 1950s was is perhaps something we forget. It was the equal of the sort of performance that you now see in some of the strongest emerging markets.

Then, and I don't want to dwell too long on this, but I do think the story of the German effort to deal with the past – the recent past, the Third Reich – is a remarkable story. Not an overnight transformation – actually it was a painful, slow process in many ways. There were plenty of people who denied the real truth of what had happened for too long. Many may have gone to their graves denying it. Nonetheless, in total, the effort to deal with the past is something which is remarkable, soul-searching, painstaking, and actually, in so many ways, an example to the world. It's a bit of a cliché to contrast the way the Germans have dealt with the past and the way the Japanese have or the Russians have. I think you could

provocatively ask whether other countries have dealt with their own pasts in the same thoroughgoing way as the Germans have. You might well say, of course, they needed to – that's true. Nevertheless, I do think it's a remarkable part of the story.

But I want to end up my opening thoughts with this new role of the new Germany, post-reunification, in the new Europe. It is both things that are new. Germany has gone from being the eastern end of a Western bloc, dominated by *Westpolitik*, and then of course in the German case by Adenauer (membership of NATO and the European project being the cornerstones of his policy). NATO, as famously the first secretary-general said, had as its purpose to keep the Americans in, the Russians out, and the Germans down. We've moved on from that, at least. Gone from that to being the centre of Europe, and not merely the geographic centre that it always was, now it is again, but the economic powerhouse that's driving so much of the decisions of Europe.

Is it the leader in terms of foreign policy, in terms of geopolitics? No, for reasons that we recognize and may well want to talk about. Is it the leader of social and macroeconomic policy? More and more so, partly and inevitably because of the sheer size in relation to the total economy, and partly because of the way the eurozone project is taking the eurozone members toward ever-closer integration. That integration can only really mean that all roads will increasingly lead to Berlin. That's probably enough to start.

### Quentin Peel

That's brilliant. It's very good because it brings us actually perfectly to Hans' thesis. Hans, you do use the word 'hegemon' occasionally – semi-hegemon, I think, rather than anything else. You also focus very clearly in your book on Germany's role today. The core of your book, in essence, is: has the German question come back to haunt us again? What was the German question? You can correct me if you like, but essentially that Germany was too powerful for a balance of power in Europe and yet too weak to be the hegemon. Today you've refined that very much in the light of Germany's role in the eurozone. I will pick up on the foreign policy question too, because what your book does – actually very helpfully, if I may say so – is do a very good analysis of German foreign policy as it has been ever since 1949. But you tell us in your own words.

### Hans Kundnani

Thanks, Quentin. Thanks for the kind introduction. Yes, I suppose in a sense maybe the way to think about the difference between my book and Stephen's is I think of my book as being a postscript, in a way, to the success story of the Federal Republic that you tell, which I broadly agree with – the story of redemption and renewal. If those are the key concepts in your reading of German history, I suppose mine is more recurrence: as Quentin mentioned, the re-emergence potentially of the German question. So in that sense, I think it's probably a much darker book than yours, Stephen.

It was prompted really by this debate that's taken place in the last five years, since the euro crisis began, about German power in Europe. In 1953, Thomas Mann famously called for a European Germany rather than a German Europe. But since the crisis began, it's become almost a commonplace to say that we now live in a German Europe. There's been much discussion, as Quentin mentioned, about German hegemony – reluctant hegemony, perhaps potential hegemony, but nevertheless this idea of German hegemony.

Some serious analysts, like Martin Wolf in the *Financial Times*, have gone even further than that and talk about the emergence of a German empire – and actually use that word, which is even stronger than hegemony.

Obviously this debate about German power in Europe has a long history. I think implicit in the debate about a new German question is the idea that in some ways history has returned to Europe. In particular, that Germany has in some ways regressed or reverted to something like the role that it had between 1871, when Germany was unified, and 1945. You see that not just in the comparisons of Angela Merkel with Hitler in the Greek press and on the streets of Athens, but again serious analysts. Just to give you one example: Anthony Giddens, who is not a Germanophobe or even a Eurosceptic – on the contrary – wrote in his book last year on Europe, 'Germany seems to have achieved by pacific means what it was unable to bring about through military conquest: the domination of Europe'. That's pretty strong stuff.

So my book was really an attempt to ask the question about whether Germany's pre-1945 history is in some way relevant to the current situation, and if so, how. The German question originally, as Quentin just mentioned, was from 1871 onwards this problem created by the size and central location of Germany. It was too big, as Quentin said, for a balance of power, but too small for hegemony. It was too powerful for any single great power to challenge but not powerful enough to defeat a coalition of two or more of those powers. So this is why Ludwig Dehio, the German historian, talked about Germany's semi-hegemony – *halb-Hegemonie* was the original term in Germany – rather than hegemony.

That kind of in-between position, the structural situation, was problematic because it structurally encouraged other European great powers to form an anti-German coalition. That, in turn, created a fear in Germany of precisely such a coalition. Bismarck talked about *le cauchemar des coalitions* (the nightmare of coalitions). So you have what international relations theorists call a security dilemma, which has a kind of self-fulfilling dynamic where powers take steps to improve their own security but in doing so they undermine the security of others, and others respond, and so on. So what the German historian Hans-Peter Schwarz called a 'dialectic of encirclement' began, that culminates in World War I.

My argument in the book is that the German question, which until recently Europe seemed to have put behind it, has now re-emerged but in geo-economic form rather than geo-political form. What I mean by that is that whereas in the past, Germany faced potential enemies on all sides, it's now surrounded on all sides by NATO allies and by EU partners. In other words, in geopolitical terms, Germany is benign. However, the German economy is now putting pressures on Europe in a somewhat analogous way. In particular, the persistent current account surplus that Germany, the biggest country in Europe, is running puts intolerable pressures on the other countries in the eurozone, particularly on the so-called periphery. So the size of the German economy and the interdependence between it and other economies within the eurozone is creating instability in the same way that German military power once did in the past.

However, Germany once again is too fragile to take on the burdens of hegemony, whether that's through fiscal transfers, whether that's through a mutualization of European debt, or even through moderate inflation. So in short, although Germany's increased power – and France's relative weakness, it has to be said – have allowed Germany to impose its preferences on the rest of the eurozone in the last few years, it's too small to be a European hegemon as some – most famously, Radek Sikorski, the Polish foreign minister – have urged it to become.

So in a way, the position is strikingly similar to the one that Germany had in Europe between 1871 and 1945. It's returned to this position of semi-hegemony, except in geo-economic form.

What this might mean in concrete terms is a kind of geo-economic equivalent of the types of conflict that you had in Europe following German unification in 1871. In particular, something analogous to the competitive dynamic of coalition-building, centred on Germany, that you had in Europe between 1871 and 1945. Since the euro crisis began, other EU member states have adopted a mixture of what international relations theorists call bandwagoning and balancing. On the one hand, some EU member states, particularly those in central Europe whose economies are now deeply integrated into the German supply chain, seem to be forming the geo-economic equivalent of a sphere of influence. On the other hand, the countries of the so-called periphery have found themselves under increasing pressure to form what George Soros called a common front against Germany. This, in turn, is leading to a kind of geo-economic inversion of the old German fear of encirclement. Germany now fears an emergence of a coalition of weak economies rather than strong armies.

This fear of an anti-German coalition has increased since the European Council in the summer of 2012, when Chancellor Merkel was essentially ambushed by Mariano Rajoy of Spain, Mario Monti of Italy and Francois Hollande of France, and was forced to succumb to their pressure to enable the European stability mechanism, the eurozone bailout fund, to directly recapitalize banks. Shortly after that, Mario Draghi made his famous statement about doing whatever it takes to save the euro and created OMT (outright monetary transactions). That initiative was seen in much of the rest of the eurozone, and in much of the rest of the world, as being a kind of breakthrough that finally broke the feedback loop between bad banks and sovereign debt and saved the euro. However, in Germany that initiative was seen as being a defeat. *Der Spiegel* called it 'the night that Merkel lost'.

I finished writing the book at the end of 2012 actually, the beginning of 2013. It seems to me this kind of zero-sum dynamic between Germany and the periphery has continued since then. Most recently, last week the preliminary ruling by the European Court of Justice, which seemed to clear the way not just for OMT but also for a programme of quantitative easing by the European Central Bank, again was seen as being a breakthrough in much of the rest of Europe, particularly in the periphery. Again, in Germany – and I've been in Germany since the day after that ruling was made – in following the media, that's been seen very much as a German defeat. Just to give you one example of that: this is yesterday's *Frankfurter Allgemeine Sonntagszeitung*, which is the most authoritative newspaper in Germany. Their headline from yesterday was essentially: Mario Draghi makes Angela Merkel an offer she can't refuse. In other words, implicitly comparing him to a mobster. I think the fact he's Italian, there's an implicit reference there. So borderline chauvinist as well as being deeply problematic. That's the *Frankfurter Allgemeine Zeitung*, it's not the *Bild*, for example. It seems to me there's very much this sense of victimhood that's emerging in Germany, which I think is quite problematic.

Just to finish, what happens next? Although action by the European Central Bank, particularly OMT, has kept the eurozone together, it's not enough on its own to create growth or to bring down the extraordinarily high levels of unemployment that you have in eurozone countries like Greece and Spain. As a result of that, frustrated with the failure of centre-left and centre-right parties, voters in those countries increasingly turning toward radical left-wing and right-wing parties. In a week or so's time, Syriza might come to power in Greece. Podemos in Spain might find itself in a similar position later on this year. The most alarming development is the rise of the Front National in France. I'm sceptical that France, Italy or Greece can create jobs and growth without a big shift in eurozone economic policy, but it's also increasingly hard for me to see how they can force that kind of a shift unless they are prepared to join forces and take a much more confrontational approach to Germany, as many people are now urging them to.

So it seems to me that the geopolitical dilemmas that Europe struggled with for centuries seem to have returned in geo-economic form. They're centred this time on this conflict between the interests of creditor countries and debtor countries locked into a single currency. The question for me is how much conflict Europe will need in order to resolve this dynamic.

### Quentin Peel

Hans, thank you very much. You can see there is a different emphasis between these two. I'm sure there are going to be lots of questions from the floor. I think I'm going to abuse my position very quickly to throw one at each of you, and then I want to bring other people in. Stephen, first. One, I want to ask you whether you recognize this semi-hegemon or half-hegemon that Hans brings out, but let me come at it this way. One of your conclusions, with which I very much agree, is that because of its history, because of its past, Germany is actually enormously comfortable in the European Union. It naturally relates to this rather multi-layered decision-making process, the federalism (in the correct meaning of the word) of this whole system. So Germany is comfortable in Europe in a way that Britain is not comfortable in Europe. That, I think, is a very interesting argument, particularly in this country. But coming from that position, can you see this country that is feeling victimized, that Hans presents us with?

### Lord Green

I at least partially agree with Hans, but I wouldn't necessarily put it quite the way he has put it. I don't have quite as dark a prognosis. There are plenty of stresses and strains in the eurozone. We are not out of the woods yet in terms of the ability of the eurozone to generate stable growth, jobs for the young. There are plenty of reasons to be worried about the democratic deficit that's emerging in all sorts of ways. You mentioned Greece and Spain and France. All of that is, I think, indisputable as a menu of worries for the present day.

The role of Germany in the eurozone is one which is problematic in that – and I put this a bit differently. What I think is true is that there's very little recognition in the German public discourse that Germany itself is part of the problem in the eurozone. There is a widespread assumption in Germany that the difficulties of the Mediterranean countries have to do with feckless bad management built up over many decades, and it is necessary to sort these problems in those countries. Germany doesn't have to do anything different, apart of course from participating in various financial measures to smooth the way.

It's probably not the right point to have an entire discussion about the future prospects of the eurozone, but what I do want to say is that the Germans look at the question of the eurozone in a fundamentally different way, certainly from the British. Because for Germany, and this is to your point, Quentin, this is something of existential significance. I don't think there's anyone in Germany who would question the deep psychological need to integrate itself more strongly and deeply and irreversibly in a European project. That project happens to have taken the form centrally of the eurozone. It might not have done so. Had the European project emerged through the European Defence Community – the stillborn European Defence Community – life might have been different. It's very hard to imagine Germany emerging as the leader of an EDC-led European project. Had the single market been the dominant mode of European integration, again, I don't think Germany would necessarily have been in the leadership in such a project

either. You might question whether Britain would ever have been in the leadership either, but it would have been much more to Britain's taste to play a prominent role in the single market.

As it is, it is the eurozone which has become the dominant feature of the European Union. Germany's commitment to the gradual integration that goes with that is an existential one. They could not contemplate the unravelling of the European project which would be implied by the breakup, in a fundamental way, of the eurozone. They know that this means a gradual melding of their sovereignty into a wider whole and – to your point, Quentin – I think are more comfortable with that than the British certainly would ever be, than the French will ever be. I don't think it's only the British who are being forced into some uncomfortable soul-searching about the European project – so are the French.

The Germans have more appetite for this perhaps because of recent history, and they have more aptitude for this because of their deeper history – the history of the Holy Roman Empire, the layered identities, the complex interactions of different bases of power and identity. They are just more used to what it will take to be a part of a gradually integrating eurozone than any of the other big countries anyway.

### Quentin Peel

Okay. Hans, let me turn to you. Do you want to come back on that?

### Hans Kundnani

That's clearly true about layered identities and I agree with that.

### Quentin Peel

Let me throw it out just a little bit more, back into the foreign policy area. One of the things that's happened since you finished your book has been the launch of this foreign policy review in Germany, which potentially could be very important. I see that as being, if you like, not grabbed by Germany as a desire to be taking the lead on foreign policy, but actually forced upon Germany, partly because of the lack of leadership that's coming from the two traditional leaders on foreign policy (Britain and France) in Europe. So suddenly Germany finds itself in this position where people are saying: you've got to take the lead because nobody else is taking the lead. And in fact, on Ukraine and with Russia, we've had a fascinating situation where Germany has indeed taken the lead. Does that reinforce your argument or does it undermine it?

### Hans Kundnani

That's a very interesting question and I've been thinking about that a lot since the book came out, or since I completed the book. There is this very interesting moment now. As you mentioned, shortly after Merkel was elected to her third term and Steinmeier became foreign minister again, he announced a review of German foreign policy, a kind of fresh look at European foreign policy. Almost immediately after that

happened, the Ukraine crisis started. So these two things together have created this very interesting moment. It's very interesting. I'm not sure exactly how German foreign policy is changing. I think in a sense it's too soon to say. But my impression so far is that there has been clearly a shift on policy towards Russia, but it's not entirely clear to me how it develops in future. There's been this absolutely fascinating but incredibly emotional – and I think quite volatile – debate in Germany about Russia. Germany is deeply divided about Russia. Merkel, it seems to me, has taken a surprisingly tough stand against Russia since the annexation of Crimea. But first of all, it's not clear to me how much stamina Germany has, for example, to continue with sanctions in future. That's an open question, particularly given the lobbying by business.

Secondly, it's not quite clear to me whether the shift that's taken place on policy toward Russia extends beyond Russia. One of the aspects of German foreign policy that I'm really interested in, that I write a lot about in the book, is Germany's relationship with China. There's been this increasingly close relationship that's developed over the last few years between Germany and China, based particularly on the exponential growth of German exports to China. Until the annexation of Crimea, German policy toward Ukraine appeared to be very much driven by economic interests. That does seem to have shifted since the annexation of Crimea. There's been a kind of balancing, a reprioritizing, of strategic objectives. I don't think Germany had much choice but nevertheless there has been somewhat of a rebalancing. But the question I ask myself is whether that's going to go beyond Russia. As I say, it seems to me that policy towards China remains rather similar to how German foreign policy toward Russia was before the Ukraine crisis.

So I think there is a change happening. Exactly what it is, I'm not quite sure. The way that I have recently, in a paper I wrote for *Foreign Affairs*, framed it is that Germany is becoming a different type of geo-economic power. It's still a geo-economic power as far as I can see but it's becoming a slightly different type of geo-economic power that pursues strategic objectives in some cases, like on Russia, using economic means, rather than simply pursuing economic objectives, which is what it appeared to do in much of its foreign policy before the Ukraine crisis.

**Quentin Peel**

Thank you, Hans. I'm going to throw it open to the floor.