Franco-German cooperation and the rescuing of the Eurozone

Hanno Degner
Department of Politics and Public Administration, University of Konstanz, Konstanz, Germany

Dirk Leuffen
Department of Politics and Public Administration, University of Konstanz, Konstanz, Germany

Abstract
This article analyzes the effect of Franco-German cooperation on Economic and Monetary Union reforms, negotiated between 2010 and 2015. We identify three causal mechanisms theorizing how Franco-German cooperation affected the outcomes of EMU negotiations, namely through (a) the elimination of issues from the negotiation agenda; (b) the identification of compromise solutions or the provision of compensations; and (c) the power-based imposition of joint agreements on other member states. We use process tracing to analyze almost the full sample of contested issues included in the ‘EMU Positions’ dataset. Our findings underline that France and Germany indeed eliminated issues to which they were jointly opposed, but they also positively shaped the agenda by proposing compromises and offering compensation. No evidence supports the power-focused perspective of a Franco-German directoire.

Keywords
Economic and Monetary Union, France, Germany, interstate bargaining, power

Corresponding author:
Hanno Degner, Department of Politics and Public Administration, University of Konstanz, P.O. Box 83, Universitätstraße 10, D – 78467 Konstanz, Germany.
Email: Hanno.Degner@uni-konstanz.de

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Introduction

A gap often exists between how practitioners and journalists perceive politics, and how political scientists understand political decision-making. A prominent case of such a discrepancy is the role attributed to Germany and France in the politics of the Eurozone Crisis. Whereas political decision-makers and journalists regularly ascribe major importance to these two states for the politics and outcomes of the crisis, a number of academic experts remain more skeptical as to the importance of these two countries, both individually and as a team (Dinan et al., 2017: 373; Menz and Smith, 2013: 203).

This article analyzes whether and, if yes, how Franco-German cooperation has shaped Economic and Monetary Union (EMU) reform, negotiated between the years of 2010 and 2015. To this end, we propose three mechanisms linking Franco-German cooperation to EMU decision-making. The first mechanism refers to the elimination of proposals or issues from the European negotiation agenda: by casting a joint veto, France and Germany are argued to have reduced the choice set available to the other member states. The second mechanism suggests that these two countries broker solutions that are acceptable for the other member states. France and Germany form an inner negotiation circle to develop compromises and propose compensation measures. Therefore, they reduce the transaction costs of European Union (EU) decision-making. According to the third mechanism, France and Germany constitute a directoire that imposes its preferred solutions on other member states.

To test the effects of Franco-German cooperation on EMU decision-making, we apply process tracing to almost the entire sample of proposals contained in the ‘EMU Positions’ dataset (cf. Wasserfallen et al., 2019). By covering such a medium to large number of cases, we possess a solid empirical basis to support or reject the mechanisms specified in the theoretical part of the article. We try to reduce the risk of erroneous interpretations of the data by providing a qualitative in-depth look on the very same issues that are treated quantitatively by the other contributions to this special issue. This allows us to engage in a mixed-methods debate on the politics of EMU reform during the Eurozone Crisis. At the same time, we must concede that archival data, which will only be available in several decades, might provide more reliable and/or precise measures of what member states truly aimed to achieve during the Eurozone Crisis.

Our within- and across-case analyses reveal that France and Germany, indeed, jointly affected EMU reform between 2010 and 2015, even beyond their individual weights as large and powerful member states. In particular, we show that these two countries together eliminated a number of issues from the official negotiation table, which substantially impacted the final negotiation outcomes. In addition, our case studies highlight that France and Germany repeatedly engaged in identifying compromise solutions or compensations, and thus facilitated the adoption of key reforms. Our case studies do not, however, support the directoire reading of the Franco-German couple. We find no evidence that France and Germany were able to
impose their preferred policy solutions for reforming EMU on the other member states. We conclude that France and Germany possess the negative power of the veto but cannot independently shape EMU reforms. However, due to their strong resource endowments and their joint interests in rescuing the Eurozone, they have contributed to brokering viable solutions for larger European majorities.

Theory

What role does Franco-German cooperation play in EU politics? Non-academic coverage of EU politics as well as a number of academic experts (Crespy and Schmidt, 2014; Schild, 2013a) regularly ascribe substantive importance to a so-called Franco-German ‘couple’, ‘tandem’ or ‘engine’. Other analysts remain more skeptical about the impact of coordinated activities of French and German governments (Dinan et al., 2017: 373; Menz and Smith, 2013: 203). Moreover, while some observers criticize the Franco-German cooperation’s alleged undemocratic foundations and deem its effects to be detrimental, others tend to deplore the absence of Franco-German cooperation as a major reason for stagnation in European integration.

Before empirically analyzing whether Franco-German cooperation influenced EMU reforms during the Eurozone Crisis, we specify a number of mechanisms linking Franco-German activities to the process and outcomes of EU negotiations, moving beyond more general concepts such as ‘leadership’ (cf. Paterson, 2009; Schild, 2010, 2013a) or ‘steering capacity’ (Wood, 1995).

We distinguish the combined effect of Franco-German cooperation from the role that each of these two states plays in EU decision-making. Both countries, through their qualities as large and economically powerful founding member states, certainly qualify as major power-brokers. In the context of EMU reform—without doubt an instance of high politics—they can individually be considered veto players (Tsebelis, 2002). More generally, intensive coordination and close Franco-German contacts exist at various political and administrative levels (cf. Mazzucelli, 1997). For instance, the so-called Blaesheim meetings regularly bring together the French president and the German chancellor, and since 2003, the Franco-German Council of Ministers officially reunites French and German ministers once or twice a year. Strong contacts on the administrative level are documented by Naurin and Lindahl (2008: 74) as well as by Thurner et al. (2002: 154).

In the following, we distinguish three mechanisms of how Franco-German policy coordination can affect EU reforms. According to the first mechanism (M1), France and Germany pre-select issues from the theoretically conceivable set of policy options. If both governments oppose a policy, we expect their joint opposition to lead to an ‘elimination’ (Tsebelis and Hahm, 2014) of issues, narrowing the choice set for the other member states. This may lead to an underestimation of both France’s and Germany’s impact, at least if their (joint) bargaining power is analyzed with respect to those issues that remain on the official negotiation table (Bachrach and Baratz, 1962; Bailer and Finke, 2019; Lundgren et al., 2019).
According to the second mechanism (M2), France and Germany jointly engage in brokering deals. Data on preferences show that the two countries’ positions very often differ substantively. For instance, data from the Decision-Making in the European Union dataset (DEU II) (Thomson et al., 2012) highlight that France is on average more closely aligned with Italy than with Germany (Leuffen et al., 2012). Similarly, concerning EMU-related issues, it is often argued that France would pursue interests and ideas conforming to those of a camp of Southern EU member states, whereas Germany is associated with a group of Northern countries (Brunnermeier et al., 2016; Hall, 2012; Lehner and Wasserfallen, 2019). Realizing their substantive differences but also the common challenges they face, France and Germany engage in bilateral negotiations directed at identifying viable policy solutions for the whole EU or—depending on the scope of the policy—the whole Eurozone. Following Tsebelis and Hahm (2014), two options are available for overcoming vetoes, namely ‘compromise’ or ‘compensation’. Compromise refers to agreeing on intermediary positions on a single dimension or issue, whereas compensation refers to logrolling within or across proposals.

Given the institutional setup of the EU and the Eurozone, whether a joint Franco-German compromise is adopted in the European Council, the Council, or the Eurogroup depends on the other member states’ preference distribution. If a Franco-German initiative falls into the member states’ joint win-set, there is a strong likelihood that the policy will be adopted at the European level. Figure 1 illustrates a Franco-German compromise that should gain the support of other member states (S1 to S5). In this example, France (FRA) and Germany (GER) hold extreme positions on opposite ends of the preference spectrum. The Franco-German compromise (FRA-GER) is depicted as an intermediary position.

A number of authors have argued that joint Franco-German initiatives are most likely to be successful at the European level if France and Germany initially take extreme positions and/or represent different camps inside the EU, but they can overcome their differences through compromises or compensation (cf. Leuffen et al., 2012). For instance, Webber (1999a: 16) argues that

[paradoxically, the greater the divergence between French and German preferences on a given issue, the more likely it is that, if a common Franco-German position is developed, this will be ‘multilateralized’ and taken over by the EU as a whole.

![Figure 1. Franco-German initiative that is likely to be adopted by the EU-28.](image)
In such a reading, Franco-German cooperation can be understood as a procedural mechanism of policy coordination that reduces transaction costs of EU decision-making.

The third mechanism (M3) of how France and Germany could affect the outcomes of EU or Eurozone negotiations focusses on their joint structural or issue-specific power (cf. Tallberg, 2008). In the \textit{directoire} reading of the Franco-German impact on EU policy-making, which is a prominent theme in both the academic and the political practitioners’ discourse (Schild, 2010: 1375; Webber, 1999b: x), France and Germany use their combined powers to impose their preferred outcomes on other member states. The \textit{directoire} mechanism was probably more prevalent in the early years of European integration and might have become ‘an unrealistic one after the end of the cold war’ (Cole, 2010: 168). But because mechanism M3 concerns ‘one of the most common and persistent assumptions made about the European integration process’ (Webber, 1999b: x), we still find it important to test whether it played a role in EMU decision-making during the Eurozone Crisis.

In sum, the three depicted mechanisms provide diverging institutionalist explanations of why and how Franco-German cooperation affects EU negotiations. In the case of mechanisms M1 and M2, France and Germany form an inner negotiation core in the EU, leading to the elimination of issues or the identification of compromise or compensation solutions. Delegating such powers to France and Germany may be rational for other member states because Franco-German negotiations can reduce transaction costs in an EU-28. But France and Germany must represent ‘hypothetical coalitions […] each of whose members share a common interest in a certain potentially salient aspect of the expected outcomes of policy interactions’ (Scharpf, 1997: 81) to be considered representatives or ‘proxies’ (Koopmann, 2004:13) for ‘their’ hypothetical coalitions. In contrast, the third mechanism (M3) is purely focused on Franco-German power, which can be used at the expense of the other member states.

\textbf{Methods and data}

In this article, we examine whether Franco-German cooperation has an independent impact on EMU reform decision-making. As an empirical strategy, we rely on process tracing as a research method broadly acknowledged as being suitable for causal inference (cf. Bennett and Checkel, 2015; Lorentzen et al., 2017). Whereas process tracing is often limited to a small number of cases, the ‘EMU Positions’ dataset (Wasserfallen et al., 2019) allows us to systematically cover a larger number of cases. In particular, we present case studies of \textit{all} proposals contained in the ‘EMU Positions’ dataset, with the exception of the four issues relating to the \textit{Five President’s Report}, as no outcomes have yet been reached on them. Thus, by covering 43 of the 47 issues contained in the dataset, we do not run the risk of engaging in selection bias and can exploit the full variance contained in this sample.

We enrich the dataset observations that the EMU Positions dataset offers with causal process observations from a large number of primary and secondary
sources, notably official EU and governmental documents and quality newspaper articles, scrutinized according to the rigid standards that historians use (Bennett and Checkel, 2015). This allows us to unveil empirical linkages between different issues and proposals contained in ‘EMU Positions’. Moreover, we also cover a number of issues not included in the dataset. These latter proposals never made it to the official negotiation table and are important for testing our elimination mechanism. Our within-case analyses of the 2010 to 2015 intergovernmental negotiations on EMU reforms are complemented with an across-case comparison.

Empirical analysis

The analysis of the ‘EMU Positions’ dataset reveals that the French and German positions during the Eurozone Crisis were quite distanced from each other (cf. Figure 2); the average distance of their positions is 66.6 on our scale ranging from 0 to 100, signaling ‘discord’ rather than ‘harmony’ (cf. also Lehner and Wasserfallen, 2019).

In contrast, the distance between France and the Southern member states is significantly smaller: 11 points separate France from Spain, 15.2 from Portugal and 16.4 from Italy. With distances of about 60 points to these states, Germany stands out. The pattern is almost mirror inverted for the Northern Eurozone countries; Germany (France) on average is separated by 33 (63) and 34 (74) points from Finland and the Netherlands, respectively. This indicates the two countries’ connections to distinct ‘camps’ of Eurozone member states. At the same time, France and Germany are more or less equally distanced from the non-Eurozone members Poland and the United Kingdom (UK), with Poland being more closely aligned with France and Germany than the UK. The average distances of France and Germany to the negation outcomes are quite similar, 43.6 for France versus 47 for Germany. In line with findings by Lundgren et al. (2019),

![Figure 2](image_url)

**Figure 2.** Average distances of France and Germany to selected countries on 47 contested EMU reform issues, 2010–2015.
Note: ‘EMU Positions’ data (Wasserfallen et al., 2019).
this highlights that neither France nor Germany seem to have been particularly successful during these negotiations. Incidentally, another noteworthy finding is that the diagnosed differences of member state preferences in EMU-related issues are much more pronounced than in the more ordinary, day-to-day policy-making captured by the DEU II dataset (Thomson et al., 2012). After having sketched out a number of observations relating to the general positions of France and Germany during the Eurozone Crisis, we now turn to our case studies.

**Case 1: Assistance given to Greece and the European Financial Stability Facility**

At the outset of the Eurozone Crisis, in the first months of 2010, Franco-German ‘discord’ concerning the necessity (issue G1) and, later, the form of financial assistance given to Greece (G2) led to a gridlock in EU decision-making (Schneider and Slantchev, 2018: 17). Germany, together with the Netherlands and Finland, initially opposed any form of financial support for the Greek government, referencing the EU’s ‘no-bailout’ clause (Art. 125 TFEU). In contrast, France and all other Southern EU member states demanded quick and bold action to stop detrimental financial market speculations. On 11 February 2010, a bilateral meeting of Chancellor Merkel with President Sarkozy caused a two-hour delay of the subsequent European Council meeting, but it could not bridge the diverging preferences between their countries (The Telegraph, 2010). In the following six weeks, Merkel’s government cautiously softened its position in response to the intensive lobbying activities of German banks, especially Deutsche Bank, as well as pressures from France, the European Central Bank (ECB) and other EU member states (Degner, 2016: 27f). In bilateral talks directly preceding the European Council meeting of 25 March 2010, Merkel and Sarkozy brokered a deal on the cornerstones of a potential financial support scheme for Greece (Deutsche Welle, 2010). The strong conditionality of the Greek aid package corresponds to the ‘compensation’ mechanism (M2) developed above: France and the other Southern EU member states had called for unconditional loans as a form of ‘solidarity’ with Greece. Germany’s acceptance of redistribution measures was reached when the other partners accepted the rigid conditionality that Germany demanded (The Guardian, 2010a).

In reaction to the unexpected downgrades of Greek and Spanish debt bonds by the rating agency Standard & Poors on 27 and 28 April, which threatened to result in an unorganized Greek default, Germany agreed to activate the financial support scheme for Greece on 3 May 2010 (Schneider and Slantchev, 2018: 20ff). Yet, at that time, the German government still opposed the French proposal of a systematic, institution-based approach to safeguarding the Euro EFSF1). In an unprecedented—albeit not fully credible (Schimmelfennig, 2015: 187)—move, President Sarkozy threatened to abandon the single currency at a Eurozone summit on 7 May 2010 unless Merkel agreed with setting up the temporary European Financial Stability Facility (EFSF). During the meeting, as The Guardian (2010b) reported, ‘[t]he French had Spain, Italy, Portugal and the European Commission lined up
behind them. On the other side stood Germany, ranged alongside the Dutch, the Austrians and the Finns, all quietly hoping Merkel would prevail’.

Under the intense pressure from both the financial markets and the Southern European member states led by France, Germany and the Northern ‘camp’ agreed with setting up a financial safety net, involving the EFSF, the European Financial Stability Mechanism, and additional support from the International Monetary Fund (IMF), with a lending capacity of 750 billion Euro (Gocaj and Meunier, 2013: 244f). In turn, as in the Greek case, the German-led countries insisted on the conditioning of all future EFSF programmes with decisive fiscal and economic policy reforms. Moreover, to guarantee that such reforms were actually enacted, Germany and its allies also pushed for the IMF’s mandatory involvement in these programmes (G3, EFSF2). The fact that the German demands became part of the EU’s emergency response to the Eurozone Crisis in May 2010 again corresponds to the ‘compensation’ logic (M2) outlined above. By contrast, we find no evidence for a Franco-German directoire (M3).

Finally, in line with the ‘elimination’ mechanism (M1), Germany and France prevented any form of debt restructuring for Greece in 2010 and did not include it in the EFSF agreement either (cf. Thompson, 2015: 859ff).4 In the first two years of the crisis, the burden of adaptation was thus largely shifted to debtor countries, which particularly mirrored the preferences of the heavily exposed French and German banking sectors at that time (cf. Tarlea et al., 2019).

**Case 2: Six-Pack and Two-Pack**

After Germany had agreed to the provision of fiscal aid in exchange for domestic reforms in the programme countries in May 2010, it aimed to make up for its concessions by demanding major reforms of the EU’s system of fiscal and economic governance. These reforms later took the form of the ‘Six-Pack’ and the ‘Two-Pack’ legislation. The most important preparatory negotiations on the Six-Pack took place within the Task Force on Economic Governance, an intergovernmental negotiation forum of the 28 EU member states under the chairmanship of European Council President Herman Van Rompuy (Puetter, 2014: 118). The task force undercut the Commission’s role as the EU’s legislative agenda setter (Chang, 2013: 256), while effectively serving as the ‘catalyst’ (Dyson, 2017: 57) for French and German proposals to enhance both economic coordination and fiscal prudence in EMU.

At the outset of the negotiations, Germany and France opposed each other on six of the eight most contested issues within the Six- and Two-Pack proposals. Germany preferred the EU to withhold funds from notorious deficit countries (SP2), demanded that Stability and Growth Pact (SGP) sanctions be blocked only via a reversed qualified majority in the Council (SP3), and favored the strengthening of the Commission’s role by granting it the power to pre-approve or reject member states’ budgets (TP2). Meanwhile, France took the opposite stance on each issue. In turn, the French government aimed to treat current
account surpluses more equally than current account deficits in the macroeconomic imbalance procedure (SP5), which Germany strongly objected in view of its export-led economy.

On 21 July 2010, in line with M2 of our theory, Germany and France presented their first joint initiative (Ministry for the Economy, Industry and Employment, 2010) to bridge their diverging preferences. At this point, France generally accepted tougher sanctions for countries in constant breach of the SGP, whereas Germany softened its position on supranational budgetary oversight authority. Beyond that, based on convergent German and French preferences (Der Spiegel, 2010), the initiative also called for the suspension of Council voting rights for countries in breach of the SGP (SP1). This ‘harmony’ initiative, which was later reiterated in the Franco-German ‘Deauville Declaration’ of 18 October 2010, caused an outcry among the other member states and the Commission. Euro Group President Jean-Claude Juncker flatly ruled out the possibility that the treaties would ever be changed in the proposed way (Reuters, 2010). Indeed, the European Council did not agree on the suspension of voting rights when it changed the treaties in March 2011 or at any later point in time. This clearly runs contrary to the directoire reading set out in our theory (M3). By contrast, in line with the ‘compensation’ logic of M2, half of the outcomes on the most contested issues within the Six-Pack and Two-Pack proposals mirror French preferences (SP2, SP5, and TPA2), whereas the other half correspond to German preferences (SPA3, SPA4, and TPA1).

**Case 3: European Stability Mechanism and Eurobonds**

As outlined above, France favored the introduction of a systematic, institution-based solution to the European sovereign debt crisis from early 2010 onwards, whereas Germany initially strongly opposed any form of fiscal transfers within the Eurozone. Both countries, however, shared a strong general preference for preserving the Euro and for fostering integration if necessary to this end (Schimmelfennig, 2015: 183).

The Franco-German Deauville Declaration of 18 October 2010 outlined the cornerstones of a comprehensive European response to the Eurozone Crisis. This initiative—a document of a single page containing only 379 words—presented a package deal of two proposals: (a) the introduction of a permanent fiscal emergency mechanism, the later European Stability Mechanism (ESM) with a corresponding legal base in the treaties and (b) an EU treaty change to reinforce supranational fiscal and economic policy coordination, which later became known as the Fiscal Compact (see case study below). This represents a compromise between the German preference for comprehensive treaty change and the French preference for leaving the EU treaties untouched (ESM1). The fact that both ESM and Fiscal Compact were formally adopted on 2 March 2012 again underscores the compensation logic of M2.
In the negotiations on the details of the ESM, Germany favored the emergency mechanism to be restricted in its size, its scope, and its sources. The German government particularly insisted on a maximum lending capacity of 500 billion Euro (ESM2), on the limitation of ESM sources to guarantees of participating member states, paid-in capital and money raised from fines that countries in breach of the SGP have to pay (ESM6), and on the restriction of ESM aid to Eurozone governments, but not private banks, for instance (ESM5). France, by contrast, aimed for a much bigger ESM, one granted a banking license and thus de-facto unlimited resources, which it could use for a broad range of operations at the markets. Beyond that, France and Germany differed with regard to the question whether ESM aid should be conditional on the ratification of and compliance with the Fiscal Compact (ESM3) (Germany in favor, France against), the involvement of the private sector in future aid programmes through debt restructuring (ESM4) (Germany in favor, France against), and the role of supranational actors in the ESM (ESM7) (Germany in favor of a limited role, France against any role at all).

To reconcile their differences, the two governments engaged in bilateral negotiations to find potential compromises. Between October 2010 and February 2012, the French president and the German chancellor scheduled no fewer than 14 bilateral meetings. Through their negotiations, the two government leaders arrived at a number of compromises that were later imposed in the formal meetings of the heads of state and government’ (cf. Krotz and Schild, 2013: 205ff). Franco-German coordination at that time was so intense that observers began to speak of the ‘Merkozy’ duo in late 2011 (Bulmer, 2014: 1254).

On 25 March 2011, the European Council adopted the so-called ESM ‘term sheet’, which essentially represents a Franco-German compromise. Like a number of further joint Franco-German proposals on the details of the mechanism, it is largely mirrored in the ultimately adopted ESM treaty. In line with M2 of our theory, Germany finally got its way on the size (ESM2), the scope (ESM5), and the sources of the ESM (ESM6), which were all much more limited than France originally preferred. Germany moreover secured an explicit link with the Fiscal Compact (ESM3) and a limited role of supranational actors in the enforcement of adjustment programmes (ESM7). Only on two issues, namely the (limited) involvement of the private sector (ESM4) and the (rather broad) scope of the EU treaty change (ESM5), the outcomes are closer to the French position.

Regarding Eurogroup President Juncker’s proposal of 5 December 2010 to introduce so-called ‘Eurobonds’, the German and French governments held opposing preferences. Germany strictly rejected the idea of joint debt bonds for the Euro area, whereas France was principally in favor. Yet, following several rounds of bilateral negotiations in Autumn 2010, both Merkel and Sarkozy jointly declared their opposition to Eurobonds after their bilateral Freiburg meeting on 10 December 2010 (Die Zeit, 2010). Even after the Commission officially called for the introduction of such bonds in November 2011, the European Council did not officially discuss it due to Franco-German opposition. Thus, corresponding to M1
of our theory, Germany and France successfully eliminated the proposal from the EU negotiation agenda. The same accounts for similar proposals on, e.g. a ‘European Debt Agency’, a supranational emergency fund, or the ‘Blue Bond’ proposal by the ‘Bruegel’ think tank (Frieden and Walter, 2017: 382; Gocaj and Meunier, 2013: 242; Schimmelfennig, 2015: 183f).

**Case 4: Fiscal Compact**

The Fiscal Compact constitutionalized important parts of the Six-Pack (cf. Krotz and Schild, 2013: 207) and included further reforms, such as a balanced budget rule for participating member states (cf. Tsebelis and Hahm, 2014). As expected in M2 of our model, the institutional design of this intergovernmental treaty resulted from intensive Franco-German cooperation. The European Council formally entered into the negotiations on the Fiscal Compact on 8 and 9 December 2011 on the basis of a Franco-German initiative of 5 December 2011 (Euractiv, 2011). Intense Franco-German cooperation was necessary, as the two countries (and the respective ‘camps’ behind them) initially held opposing preferences on seven of the nine most contested issues related to this proposal. This included, for example, the legal form of the golden rule (FC3), the involvement of non-Euro members at Euro summits (FC6), and the Commission’s competencies to go after non-complying member states (FC5). Chancellor Merkel and President Sarkozy met twice in just two months, namely on 9 January 2012 and on 6 February 2012, to reach an agreement on the most contested issues within the treaty. In the meantime, due to the high crisis pressure, no fewer than six successive draft versions of the treaty circulated among member states between 9 December 2011 and 2 March 2012, the day when member states signed the treaty (Krotz and Schild, 2013: 277f; Tsebelis and Hahm, 2014).

In line with M2 of our theory, the Fiscal Compact treaty ultimately combines within-proposal ‘compromises’, for example, on the legal form of the golden rule (FC3) with the overall package deal with the ESM. To secure the adoption of the Fiscal Compact among its European partners, Germany agreed to soften the wording of the ESM treaty on the involvement of the private sector (Reuters, 2011). France moreover secured several concessions from Germany, as the ultimately adopted treaty granted non-Euro area members only limited possibilities to be involved in Euro summits, whereas the Commission’s role was restricted to being endowed with monitoring capacities. The adoption of the treaty outside of EU law also mirrors the French ideal position but not the German one.

**Case 5: Banking Union**

The Banking Union is another key part of the EU’s response to the Eurozone Crisis, which was heavily contested among EU member states. It comprises four components geared towards harmonizing and strengthening financial market regulation and supervision in the Eurozone: a single legal framework for banking
supervision (the Single Rule Book); a supranational supervisory authority (the Single Supervisory Mechanism, SSM); a single framework for the managed resolution of banks and other financial institutions (the Single Resolution Mechanism, SRM and the Single Resolution Fund, SRF); and a common deposit guarantee scheme (the European Deposit Insurance Scheme, EDIS). The first three elements were negotiated, adopted, and enacted between June 2012 and January 2016. Together, they represent ‘the most important step in European integration since the launch of EMU. The adoption of the SSM is, in itself, one of the most significant leaps forward since 1999’ (Howarth and Quaglia, 2013: 120; cf. also Epstein and Rhodes, 2016: 416). The EDIS proposal, by contrast, is still pending at the time of writing of this paper (June 2018).

Germany, unlike France, was also reluctant about the other parts of the Banking Union, as the ‘EMU Positions’ data show (cf. also Howarth and Quaglia, 2013). The German government preferred a ‘quality over speed’ approach in the setting up of the SSM (BU6) and aimed to restrict its scope to systemically important banks (BU3). Moreover, Germany but not France preferred to preserve the ultimate authority over the SRM by turning it into an intergovernmental (not supranational) institution (BU7), opposed the mutualization of SRF contributions (BU8) and did not want to grant it ESM or state guarantees (BU9). In summary, Germany and France agreed on only two of the nine most contested issues regarding the Banking Union, namely their willingness to introduce some form of legal restriction on bonuses for bankers (BU1), and the full harmonization of capital buffer requirements for all Euro area banks (BU2). Beyond this, the ‘EMU Positions’ data reveal that the two ‘camps’ of member states that had already opposed each other in the prior negotiations on the EFSF, the ESM and the Fiscal Compact remained the same in the Banking Union negotiations (cf. also Schimmelfennig, 2015: 184).

Unlike the expectations derived on the basis of M2, however, these compromises were not the result of intensive bilateral Franco-German cooperation. Although France and Germany once again were the ‘main players’ (Howarth and Quaglia, 2013: 111) in the EU-level negotiations from 29 June 2012 onwards, the cooperation between Merkel and newly elected French President François Hollande was less intensive than in the prior ‘Merkozy’ years (Clift and Ryner, 2014: 151; Schild, 2017). Despite various bilateral meetings on all administrative levels, including the personal meetings of Merkel and Hollande preceding European Council summits, the two partners did not act as an inner negotiation circle (Der Spiegel, 2012). Other actors, who played a more active and visible role in shaping the agenda and elaborating compromises, filled this vacuum; most notably the ECB, the European Council President, the Commission, and the rotating Council presidency (Hodson, 2015: 145; Kern, 2014; Nielsen and Smeets, 2017: 6, 8ff). Clearly, this runs contrary to the directoire mechanism M3.

On 30 May 2013, Germany and France issued their first and last joint initiative related to the Banking Union (Bundesregierung, 2013). Yet, this proposal remained silent on key issues, particularly those associated with (re)distributional
consequences. The absence of further Franco-German propositions for compromises in 2013 has been explained with the growing economic asymmetry between the two countries, which more and more undermined the French role as a partner ‘on an equal footing’ with Germany (Schild, 2013b: 6). To avoid concessions and the role of a German ‘junior partner’, Hollande actively coordinated his government’s positions with Southern EU member states, particularly Italy and Spain. Meanwhile, Germany sided with the Netherlands and Finland, and issued joint declarations with them (Nielsen and Smeets, 2017: 12, 14).

Interestingly, unlike in the hitherto discussed cases of the EFSF, the Six- and Two-Pack, the ESM and the Fiscal Compact, the Banking Union negotiations dominantly resulted in ‘compromise’ outcomes. Regarding the speed of setting up the SSM (BU6), the member states finally agreed to delay the SSM from late 2013 (as favored by France) to November 2014. In terms of our 0 to 100 scale, the compromise fell at position 50, thus right in the middle of the French (100) and German (0) ideal points. Concerning the SSM’s scope (BU3), the compromise fell closer to the French position (100) than to the German one (0), namely at position 70: the SSM principally covers all European banks, but the ECB directly supervises only the 130 largest banks. Similar compromises can be observed for BU7 (Germany 0, France 100, Outcome 70) and BU8 (Germany 0, France 100, Outcome 80). With regard to our theory, the results are thus mixed: although we find only (comparatively) weak Franco-German cooperation on behalf of their ‘camps’, the negotiation outcomes still follow the ‘compromise’ logic outlined in M2 (albeit not actively driven by France and Germany).

Finally, the case also provides some evidence for M1. In the course of the negotiations, Germany managed to eliminate far-reaching plans for the EU- or at least Eurozone-wide sharing of costs of protecting savers in case of bank failure. Although France initially favored a common European deposit insurance scheme (Schild, 2017: 8), the EDIS is not mentioned in the Franco-German initiative of 30 May 2013 (The Economist, 2013). As the Commission—like the Southern Eurozone members—still insists on the need for a European deposit insurance scheme, it tabled a new, watered-down proposal on this issue in October 2017 (Reuters, 2017), which is, as already mentioned above, still pending due to lasting German resistance.

**Case 6: Financial Transaction Tax**

Besides the member states’ efforts to (re-)regulate the financial sector and improve its resilience through higher capital requirements, Germany and France also aimed to hold the banks and other financial market actors accountable for the enormous costs of the World Financial and Economic Crisis 2007–2009 and the subsequent Eurozone Crisis. In a joint initiative of 14 June 2010, Germany and France demanded the introduction of a Financial Transaction Tax (FTT) with a worldwide scope (France24, 2010). As the G20 could not agree on such a tax, the two countries pushed for an FTT at the EU level. Yet, they immediately faced broad
opposition from the other EU member states, including both Eurozone insiders and outsiders (Frankfurter Allgemeine Zeitung, 2010). Accordingly, the Commission’s proposal for a European FTT of September 2011 failed to reach a majority in the Council. Later, a group of 10 member states led by Germany and France tried to introduce the FTT through the ‘enhanced cooperation’ procedure (Kroll and Leuffen, 2014). Yet, whether the FTT will ever be introduced is still unclear at the time of writing of this paper. This case thus once again shows that the directoire mechanism, M3, did not work during the Eurozone Crisis. Beyond this, the case neither provides evidence for ‘compromises’ nor ‘compensation’ as expected in M2, as member states simply rejected the Franco-German initiative.

Across-cases comparison

In summary, the findings of our case studies show that Franco-German support for a given proposal or issue is a necessary, but not a sufficient condition for the adoption of EMU reforms. Especially between 2010 and 2012, Franco-German cooperation had facilitating functions and reduced the transaction costs of EU decision-making in a period of severe crisis. In line with our theoretical expectations on the ‘deal brokering’ mechanism M2, the two partners engaged in intensive bilateral policy coordination and mainly used compensation to achieve both fiscal support (Greece aid, EFSF, ESM) and tighter fiscal rules (Six-Pack, Two-Pack, and Fiscal Compact). In the Banking Union negotiations, by contrast, Franco-German cooperation was comparatively less intensive, and various compromises—rather than package deals on the most contested issues—had to be found. The case studies on Greece and the EFSF, the ESM and Eurobonds, and the Banking Union moreover provided evidence in support of M1, according to which Germany and France have the negative power of the veto to ‘eliminate’ proposals from the EU agenda, such as debt restructuring, Eurobonds or a European deposit insurance scheme. By contrast, our analysis did not provide support for M3. Between 2010 and 2015, Germany and France did not have the positive power to determine the outcomes of EU negotiations and did not act as a

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**Table 1. Findings on Franco-German cooperation during the Euro Crisis.**

EFSF: European Financial Stability Facility; ESM: European Stability Mechanism.
directoire at that time. The failure to achieve a European FTT is an especially telling example in this regard; the failed attempt to strip member states in breach of the SGP of their Council voting rights is another one. Table 1 summarizes the findings of the case studies.

**Conclusion**

Did Franco-German cooperation affect EMU decision-making during the Eurozone Crisis, or should we rather consider its impact a *quantité négligeable*? Our analysis of the issues contained in the ‘EMU Positions’ dataset backs a reading of Franco-German cooperation that balances between the poles of being all decisive and literally non-existent. In particular, our within- and across-case analyses highlight that France and Germany possessed the negative power to prevent policy change in the EMU—for instance, and arguably most importantly, concerning the decision to eliminate the option of a restructuring of debts from the member states’ menu of choice. This negative power of the veto, however, does not translate into an unrestrained positive capacity to determine the outcomes of EMU negotiations. In line with Finke and Bailer (2019), we do not find evidence for French and German dominance in interstate bargaining in any of our case studies, which leads us to dismiss the *directoire* reading of the Franco-German couple. This underlines that during the Eurozone Crisis, Franco-German support for a given proposal or issue can be considered a necessary but not a sufficient condition for the adoption of a policy at the EU level; while we do not claim to cover the entire universe of ‘potential policy proposals’ (cf. Wasserfallen et al., 2019: 8), this solidly holds for the medium to large number of cases covered in this article.

Our analyses also reveal that France and Germany—well aware of the serious threat posed by the Eurozone Crisis—made use of their resources to broker deals that oftentimes proved viable to the other member states as well. In this respect, France and Germany formed an inner negotiation core that acted as a facilitator of intergovernmental decision-making by reducing the transaction costs of EMU negotiations with up to 28 partners. This mechanism was not only crucial for the adoption of purely intergovernmental policies like the ESM or the Fiscal Compact but also played an important role for policies like the Six-Pack or the Two-Pack, which were subjected to the EU’s ordinary legislative procedure. Regarding the Six-Pack, intense Franco-German cooperation within and outside the preparatory Van Rompuy Task Force effectively undercut the Commission’s legislative agenda-setting power—a finding that can easily be overlooked when only considering dataset but not causal process observations (cf. Finke and Bailer, 2019: 129).

Finding compromises, of course, also depended on the involved actors and on the temporal and issue-specific circumstances. Our analyses support the public impression that the pro-active part of Franco-German cooperation was stronger between Merkel and Sarkozy than between Merkel and Hollande, but it should be acknowledged that the risks of the crisis had also—at least in part—diminished
after the ECB assumed its role as the de-facto lender of last resort for the Eurozone in summer 2012.

The case of the FTT finally underlines that if no agreement at the EU level can be reached, France and Germany may resort to alternative actor constellations, by moving towards ‘enhanced cooperation’ or other forms of differentiated integration. In summary, we recommend moving away from the all-or-nothing reading of Franco-German cooperation and plead in favor of more policy area specific as well as theoretically and empirically rigorous analyses of this phenomenon.

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Notes
1. In this article, unless stated otherwise, we use ‘France’ and ‘Germany’ synonymously with the governments of these countries.
2. We are well aware of the fact that in case of regular secondary law making, final outcomes often result from co-decision between the Council and the European Parliament (EP). Yet, this should not affect the role of the Franco-German couple in brokering intergovernmental compromises. Moreover, according to Costello and Thomson (2013: 1036), the EP’s actual power to shape outcomes is ‘lower than the formal procedural rules suggest’, so that the Council’s position often prevails in inter-institutional bargaining.
3. This abbreviation and the following ones refer to the respective contested issues of the ‘EMU Positions’ dataset, as introduced in Table 1 of Wasserfallen et al. (2019).
4. Note that Germany and France, despite firmly ruling out debt restructuring for Greece until late 2011, already envisaged private sector involvement to be part of the future permanent crisis management framework sketched in the Deauville declaration of October 2010. After most of the Greek debt was shifted to ECB, Germany changed its position on Greece in summer 2011 (cf. Thompson, 2015: 860) and the EU ultimately adopted a substantial haircut on Greek debt bonds held by private actors as part of a second aid package for the country on 26 October 2011 (see e.g. Caporaso and Kim, 2012: 783).
5. The document can be found at the webpage of the then-Danish EU Council Presidency, available at: www.eu.dk/~/media/files/eu/franco_german_declaration.ashx?la=da (accessed 1 October 2018).
6. Information on these meetings is available at www.france-allemagne.fr/Die-deutsch-franzosischen,0586.html
7. This information was confirmed by two interviews with senior staff from the German Federal Ministry of Finance, conducted in February and March 2016.

ORCID iD
Hanno Degner http://orcid.org/0000-0003-0077-8819

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