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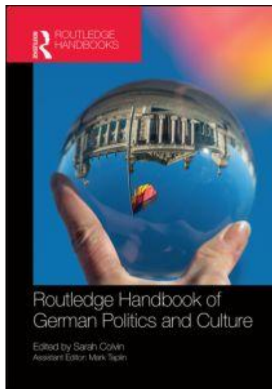

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German power and 'embedded hegemony' in Europe

Beverly Crawford[1]

With ample evidence of German clout in shaping the outcome of the current euro crisis, there is general agreement that Germany is Europe's economic hegemon: the country with the most resources required for leadership. There has been little effort, however, to define hegemony or the role of a hegemon in the European economy, particularly in a crisis. This chapter describes how Germany's post-Wall European policy has been shaped by its role as the EU's economic hegemon since the 1980s. However, its continued position as a hegemonic leader of the eurozone – and of the single market as a whole – remains to be seen. German patronage and leadership ensured cooperation in creating and maintaining the European single market in good times and, in doing so, shaped the European 'milieu' (Bulmer, Jeffery, and Paterson 2000) in ways that enhanced European cooperation and protected and bolstered German economic interests. In the current European crisis, however, German unwillingness to make the sacrifices necessary to stabilise monetary union in bad times may signal that the era of hegemonic leadership in Europe is coming to an end.

This chapter begins by explaining why the debate over post-Wall German foreign policy is flawed and why an examination of Germany's role as the 'hegemonic leader' in Europe may yield more fruitful analysis and reconcile conflicting positions in the debate. The next section defines what I mean by the term hegemonic leader, why a hegemon is needed to achieve and maintain international cooperation, and what resources it takes to be one. I briefly discuss why hegemonic leaders rarely act alone and the dangers of domestic backlash in hegemonic states. I then turn to an overview of the hallmarks of German regional hegemony in Europe and describe some of the ways in which Germany has played the role of Europe's hegemonic leader. The final section is a case study of Germany's role in the European monetary system, measured by the standards of hegemonic stability theory. I conclude with an overview of the argument and raise the disturbing question whether Germany can and is willing to provide the hegemonic stability that is required for continued monetary union in the EU. I close by suggesting that Germany's unwillingness to provide resources for cooperation in this important issue area has already led to instability in Europe and that, unless Germany takes steps to help regain stability, is likely to result in more instability, defection from cooperation, and the demise of the monetary union.

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Continuity or change: the wrong debate over post-Wall German foreign policy

Twice in the 20th century Germany aggressively reached for hegemony in Europe with disastrous results. After 1945, in order to prevent a third attempt, the Allies stripped a defeated, divided, and demilitarised Germany of its sovereignty and bound it to multilateral institutions, setting the direction for German economic and military policy. As the latter half of the century wore on, Germany emerged as Europe's economic powerhouse under the aegis of those institutions. After 1989, when full sovereignty (and the potential military capability to maintain it) was restored, the 'German question' was revived. Would Germany remain bound to treaty institutions that governed its foreign policy and military behaviour? Or would national interests replace its European interest? Many observers believed that Germany's commitment to the European interest was unwavering. Others speculated that Germany, now less dependent on European institutions, would begin asserting its sovereignty and go its own way. But most analysts agreed that, given the besmirched and bungled attempts to dominate its neighbours in the first half of the century, preponderant German power on the continent was to be feared. Analysis of the potential for a powerful Germany to play a *positive* hegemonic role in Europe seemed unthinkable. When evidence of the positive role of German power appeared, most analysts ignored or dismissed it.

This inconceivability of German power as a positive regional force trapped the debate over its foreign policy in a narrow, sterile dichotomy of 'continuity' versus 'change' (for analyses of this debate see Harnisch 2001; Rittberger 2001; Risse 2004; Herborth and Hellmann 2006; Gross 2009; Mauer 2009; Crawford 2010; Mayhew *et al.* 2011; and Chapter 25 in this volume). Observers in the 'continuity' school saw Germany as a 'reflexive multilateralist', still tightly bound to (and dominated by) European institutions. Others saw the potential for change in German foreign policy, equating it with the achievement of 'normality' as a European nation state. They predicted that sovereignty after 1989 would lead Germany to settle into the normal game of power politics, with an eye to serving only its self-interest. Even the most inconsequential German foreign policy decisions were carefully scrutinised, and each act was held up as support for one or the other position. There was little discussion of Germany's foreign policy 'vision' (Karp 2006; Crawford 2010). Although all accepted that the German economy was the 'engine' of the European economy, the function of the engine was rarely defined, and the notion that Germany was providing hegemonic stability within Europe was still inconceivable.

Positive and negative continuity

Within the straitjacket of a continuity versus change debate, each position had a positive and negative variant. Those who saw positive continuity in Germany's ongoing participation in multilateral institutions argued that a powerful Germany had finally relinquished power politics, embedding itself further in those institutions and helping to cement cooperation and consensus in furthering the expansion and integration of the European free market. Pointing to Germany's continued limited military capabilities, some observers argued that, as a corollary, Germany had abandoned militarism and therefore the pursuit of hegemony in Europe.

The more negative variant of the continuity thesis interpreted Germany's reflexive multilateralism as an indication that Germany is a free-rider in multilateral institutions, raking in the benefits of cooperation without paying the costs (Vinocur 2006; Leithner 2009; Soros 2012). Pointing to Germany's refusal to join the Iraq invasion or abstention from participation in a no-fly zone over Libya in 2011, critics called Germany a consumer rather than a provider of

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security. Germany was accused of 'navel gazing', of hiding behind its 'culture of reticence', of refusing to abandon its 'reflexive comfort zone', and of fearing to leave its 'safe house of moral comfort and limited involvement' (Vinocur 2006). In the midst of the euro crisis, Germany was seen as a free-rider on the common currency regime, and accused of being mired in a 'can't do' mode when it came to helping cement European solidarity.

Positive and negative change

The argument that Germany had, in the 21st century, finally shaken off its past to become a 'normal' state had its positive and negative interpretations as well. Those who urged Germany to embrace its 'normality' as a positive development lauded Germany's military participation in the wars of the Yugoslav succession and in Afghanistan. Some suggested that Germany could now take its rightful place among the world's great powers. Many argued that European integration weakens national sovereignty and that the EU is remote, anti-democratic, and elitist, ruled by unelected Brussels bureaucrats; it would therefore be prudent for Germany to loosen its ties to the EU.

Those who interpret normality in a negative light equate every apparent act of self-interest, or behaviour inconsistent with the analyst's views of appropriateness, with either a loosening of the bonds of multilateral cooperation and/or a step in the direction of regional domination. Germany's unilateral recognition of Croatia was cited by this school of thought as an attempt to recreate the World War II alliance with an independent Croatia as part of a divide-and-conquer strategy in the Balkans (see Crawford 1996). The Bundesbank's startling interest rate hike in 1992 that briefly derailed progress towards monetary union was cited as an example of Germany's effort to undermine European integration. Germany's refusal to participate in America's Iraq war in 2002–3 or in NATO's air strikes against Libya was cited as evidence of a dangerous break with multilateralism. Germany's breach of the eurozone's Stability and Growth Pact accompanying the monetary union (EMU) was interpreted as evidence of a weakened European identity and an assertion of naked national self-interest. Germany's approach to the eurozone crisis – not permitting a rise in inflation, precluding the establishment of Eurobonds, hesitating to provide bailouts for crisis countries – is cited as evidence of a declining interest in European cooperation that could be devastating, both in Europe and beyond (Sarotte 2010). George Soros went so far as to blame Germany for keeping 'periphery countries' in a 'permanently subordinated position' (Soros 2012). Kundnani (2011) saw Germany as loosening its ties to multilateral institutions and becoming a geo-economic power.

The four variants of the continuity versus change argument can be summarised in the matrix as shown in Table 21.1.

None of these views, however, captures the essence of Germany's role in Europe in 'good times' or its foreign policy vision. The vision consists of two tightly bound principles: multilateralism and antimilitarism. In the period before 1990, these principles did not conflict; they were vehicles by which West Germany could foster its national interest in the absence of traditional state power and national sovereignty. Indeed, ironically, West Germany maintained the national interest by relinquishing the military and diplomatic forces that maintained it. Particularly in the absence of sovereign control over military force, German leaders and the public at large believed that military solutions to foreign policy problems should be a last resort. With no real foreign policy of its own, Germany's international behaviour was based on civilian practices: trade, foreign aid, peacekeeping, international monitoring, and international law.

The FRG also behaved as a 'normal,' self-interested state *before* unification – and not always in the service of its policy vision. As part of the strategy to increase exports, for example, Germany

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Table 21.1 The four variants of the continuity versus change argument

	Germany continues as a 'reflexive multilateralist' (policy continuity)	*Germany returns to 'normality' (policy change)*
Positive	Germany as a cooperative player in multilateral institutions, maintaining a European identity.	A renewed policy of self-interest and even euroscepticism is healthy. The EU is undemocratic and incompetent. Like other 'normal' states, Germany must look after its own interests and is doing so.
Negative	A powerful and sovereign Germany is a freerider within multilateral institutions, consuming rather than producing the benefits of membership.	Germany's self-interested behaviour will harm Europe and the international community.

– in its role as a 'trading state' – sold arms and dual-use goods and technology abroad – even to unstable countries. In 1989 it was revealed that a West German firm, Imhausen-Chemie, had been providing Libya with the goods and technology to produce poison gas in significant and dangerous quantities. In the thick of the Cold War, the FRG broke with the United States when it chose to assist the Soviet Union in building a pipeline to transport natural gas to Europe. And, as I discuss in more detail below, from the 1970s until the creation of EMU, West Germany riled its European partners by raising interest rates to counter domestic inflation.

Similar examples after 1990 suggest 'continuity' of self-interest in Germany's postwar foreign policy behaviour. But overwhelmingly the evidence suggests that these two principles – multilateralism and antimilitarism – were the dominant guiding principles and held firm in post-Wall German foreign policy (Crawford 2010). When multilateral commitments conflicted with the commitment to antimilitarism, Germany chose the antimilitarist stance but did not renege on its essential multilateral treaty commitments. Although it bent the rules in recognising Croatia and broke them when it breached the eurozone's Stability and Growth Pact, important multilateral treaty commitments within NATO and the EU remained strong. Multilateral cooperation in the invasion of Iraq and the airstrikes in Libya was entirely voluntary: Germany broke no commitments by refusing to engage in military action, nor was alliance security reduced. Germany maintained its military commitment to NATO in Afghanistan, but its rules of engagement were severely restricted to reconnaissance, training, and humanitarian aid. German soldiers were forbidden to fire at anyone who might be a civilian.

The continuity-change dichotomy also misses the chief role that Germany played in the post-Wall period: underwriting the stability of and taking the lead in shaping European institutions. Some analysts have argued that leadership requires a preponderance of regional power – including military power – to call the shots, which Germany does not possess, and others argue that even if Germany has the power to lead, it is unwilling to do so (Paterson 2011; Schönberger 2012). Below I present evidence for the argument that Germany possessed the resources needed to underwrite cooperation in Europe, and used those resources to further European cooperation in the eurozone. It is to this role, which I call 'hegemonic leadership', that the discussion now turns.

Hegemonic leadership

What is a hegemonic leader? Hegemony is a fraught term. When observers of German foreign policy argue about German hegemony or lack thereof, they usually mean it in terms of

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'the most powerful state': the one that calls the shots or mobilises advantages to achieve its own interests (Mullins *et al.* 2001; Rachman 2012). Many assume that a hegemon is dominant militarily or has the capability to be so. Others see a hegemon as a dominant ideological power in the Gramscian sense: a state with the ability and willingness to impose its ideology on others (Cox 1983; Engel 2008).

My definition of a hegemonic leader is the standard one used in the field of international relations and first introduced in the literature by Charles Kindleberger (1986), based on Mancur Olsen's theory of collective action (1965), and elaborated by Robert Gilpin *et al.* (2002), Robert Keohane (1984), Barry Eichengreen (1990), and others in Kindleberger's tradition (Krasner 1976; Snidel 1985): *a hegemonic leader is the state powerful enough to pay the costs required for cooperation and shape the rules of multilateral institutions.* Or, more simply, as Jürgen Krönig (2013) writes, hegemony 'requires the ability to define and pursue national interests, [. . .] using the hegemon's greater weight and influence in such a way that it serves the common good'. This definition is based on two assumptions: (1) that states cooperate with one another to achieve goals that individual states cannot achieve (for example, they form multilateral organisations and enter into treaties); and (2) achieving cooperation is difficult because all want the benefits of cooperation while paying the least possible cost for it; or they decide that, although it benefits the group as a whole, cooperation does not promote their *individual* goals as well as unilateral action would. Cooperation is uncertain because each is worried that others will not cooperate, and so is tempted to exit before others do. In a world of sovereign states, members of a cooperative regime can leave at any time, and they do so for those reasons (Olsen and Zeckhauser 1966).[2]

An international monetary union provides an example of cooperation and its difficulties.[3] States that trade with one another want to share a single currency because under national currency systems exchange rate stability is uncertain. Without a single standard defining the value of trading partners' currencies, the costs of doing business – such as transaction and currency exchange costs – are high, especially if exchange rates fluctuate constantly. High transaction costs and exchange rate volatility make the value of traded goods uncertain. One partner in a business transaction will lose money if the currency of his trading partner depreciates. The more a currency's value fluctuates, the more likely this loss is to occur, which eventually makes traders more hesitant to conduct business. For example, prior to the creation of the euro, if a French trader wanted a product from Germany to sell in France, the merchant had to exchange French francs for German deutschmarks (DM) to pay for the product. If a fluctuation in the exchange rate between the franc and the DM caused the DM to be valued higher than the franc, the merchant would lose profit since it would take more francs to purchase the good in question.

Exchange rates can fluctuate because governments manipulate them to meet national economic goals. If unemployment is on the rise, for example, they are tempted to devalue their national currency in order to stimulate exports and create jobs; but currency devaluations are inflationary and contagious and can set off a chain reaction of retaliatory devaluations that will hinder trade. One benefit of monetary unions is that they reduce or eliminate transaction costs, especially those associated with large, unpredictable fluctuations in exchange rates. This was a problem in interstate trade in the United States until monetary union in 1791. Even then, the decision to issue a single currency was a hard-fought political battle. The achievement of monetary union among different sovereign states is even more difficult. Members of such a union – particularly those running trade deficits – will be tempted to leave it to protect their own economies when they deem it necessary to devalue their currencies in order to bring trade into balance.

In fact, collective action among sovereign states is difficult in a number of issue areas (a defence alliance, for example, or a treaty to reduce nuclear weapons, greenhouse gases, or other

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impediments to free trade). A hegemonic leader can alleviate the uncertainty of collective action by providing the bulk of a collective good: security, in the form of, for example, nuclear weapons reductions or strong environmental laws that limit greenhouse gases – the good that every state wants to cooperate to achieve. What this means is that cooperation requires a particular kind of powerful leader – not one who coerces others to cooperate or simply makes all of the decisions, but rather one who pays the lion's share of the costs of cooperation or offers generous 'side payments' to others as an inducement for them to provide their share of the collective good. As the hegemon continues these practices, it garners legitimacy in the eyes of other regime members, reinforcing their cooperation. A hegemonic leader of a free trade regime, for example, can raise the incentive to cooperate by providing resources (loans, aid, a large import market) for states facing a trade deficit to stimulate their economies and therefore maintain their membership of the regime. In the absence of hegemonic intervention, states in a monetary union who face trade and budget deficits must bear the burden of cooperation. That means that they are forced to take 'austerity measures': deflate their economies, lay off workers, and reduce pensions and incomes in order to halt imports and rein in inflation (which depreciates currency values). This hurts all trading partners, and therefore the temptation to deflate or defect from the regime must be removed. Only a hegemonic leader can provide appropriate incentives to remove that temptation.

But the European Union is not an 'ordinary' regime established to ensure cooperation among states. It is a treaty-based institution that integrates the markets of its members into a single market. Decisions are taken through complex voting procedures established to ensure that no one state will dominate the process; indeed many decisions are taken by consensus. From the beginning, all members were 'embedded' within the institution, beholden to its rules and norms. Many of those rules can be obeyed at low cost to member states. But as we have seen above, a treaty commitment to remain in a regime is simply not enough to ensure cooperation. The EU is essentially a free trade regime, subject to the problems of collective action described above. It is for this reason that the bulk of the EU budget – 41 per cent – is devoted to 'cohesion', measures intended to keep Europe together, by providing aid to weaker regions and sectors. But even with these funds, when the governments of member states perceive that the burden of cooperation is too high, they will be tempted – as Britain has been – to leave the union.

Kindleberger (1986) claimed that in order to remove that temptation, a hegemonic leader must provide five incentives to maintain a free trade regime: a stable exchange rate (to afford certainty in cross-border trade); a market for distress goods (goods that cannot find a buyer), thereby stimulating the potential defector's economy and creating employment; countercyclical long-term lending (to balance deficits and possibly create jobs); macroeconomic policy coordination (to maintain sustainable government debt and build institutional arrangements that allow the correction of emerging imbalances); and real lending of last resort during financial crises. The hegemon might need to run a trade deficit with the crisis country to stimulate that country's exports; it would need extensive capital for countercyclical and last-resort lending. Finally, it would need to provide these incentives in order to gain agreement from other members of the regime to create stable institutions for policy coordination. These and other incentives provide legitimacy for the practice of hegemonic stability.

Why would powerful states take on this role? Because they perceive the benefits of pursuing the common good. A hegemonic leader of an alliance, for example, will pay the costs because a peaceful, cooperative environment is in its best interest, and the costs of providing it are lower than the costs of arms races and wars. In a monetary union, a hegemon will underwrite cooperation in the ways outlined above because the stable currency that cooperation offers will work to its benefit, promoting exports, creating certainty in good times and preventing

competitive devaluations in bad. The hegemon of a cooperative regime does not lead alone. Leaders have never had such a preponderance of power that they could provide *all* the resources needed for stability (Eichengreen 1990). Indeed, it would not be a good idea to provide all. *But they must provide a disproportionate share of those resources*. Kindleberger (1981) suggests that shared leadership adds legitimacy and reduces the danger that leadership will be regarded as a cloak for domination. Shared leadership reduces the temptation of hegemons to bully. Shared leadership also reduces the drain on the hegemon's resources. Certainly, cooperation among liberal democratic states requires leadership within institutions in which all members have a say.

It is not altruism but the provision of a *disproportionate* share of resources to underwrite cooperation that characterises hegemonic leadership. Like other members of cooperative arrangements, hegemons gain the intangible benefits of stability, while also garnering reputational benefits and influence as a result of taking on the largest burden. But they also gain tangible benefits. In a free trade regime, for example, although in theory open markets benefit all, they benefit the strongest economy the most: its exports are the most competitive; they provide the most lucrative employment market. But though they gain the most, free trade is not a 'zero-sum game' in which some win and some lose. In fact, it is considered a 'positive-sum game' in which the efficiency and innovation that free markets create benefits all, even if some benefit more than others.

Even with the benefits it receives, paying the lion's share to maintain cooperation will drain the hegemon's resources or lead to a perception of resource drain that can trigger domestic distrust of hegemonic practice and thereby constrain it. In the United States, for example, the US Marshall Plan was initially hotly contested in Congress: on the Senate floor Alexander Wiley of Wisconsin declared 'We are through being "Uncle Sap"'; Senator Homer Capehart of Indiana called the Marshall Plan 'state socialism'; and Frederick Smith of Ohio called it 'outright communism'. Senator Joseph McCarthy of Wisconsin later called it a 'massive and unrewarding boondoggle' that had turned the United States into 'the patsy of the modern world'. The controversy might have gone on and even destroyed the initiative, but in February 1948, at the peak of the debate, communists overthrew the government of Czechoslovakia. Shortly afterwards, Congress moved quickly to fund the plan, but at a lower level than Truman had requested. Even then, a publicity blitz was carried out to convince the American people that the funding would stimulate US exports and help the country escape an impending economic meltdown. Even in this landmark case, then, hegemonic practice narrowly escaped domestic constraints.

A domestic backlash can constrain hegemonic largesse, even when it does not represent a significant resource drain. For example, under pressure from domestic business in the 1970s as trade competition increased, the United States Congress enacted protectionist measures in section 301 of the trade law. Those measures were renewed numerous times under subsequent US governments, even when the US economy grew.

While hegemons provide absolute gains to the system, making their trading partners more competitive, over time they will sustain relative losses by narrowing the wealth gap between themselves and others – even to the point of threatening hegemonic decline. Britain experienced relative decline as the leader of the 19th-century free trade regime as its trading partners grew in economic might. In the last half of the 20th century, many Americans grumbled that US military leadership in NATO and the defence spending required placed an unfair burden on the US, while NATO partners were free to pursue economic growth, thus closing the economic gap between themselves and the US. In the postwar international monetary regime, historical evidence shows that when the US *did* accept the costs of exchange rate stability, those costs ultimately undermined the US economy (Gowa 1983). When losses to hegemonic capability

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are too great, international cooperation, which depends on hegemonic stability, can become unstable over time as the hegemon balks in the face of his shrinking advantage. This happened to the exchange rate regime under the gold standard when British hegemony declined, eventually leading to the collapse of the regime. It happened to the postwar exchange rate regime under the United States as the US deficit grew and the real value of the dollar weakened. This resource drain – which can destabilise the regime and lead to domestic backlash, with a decline in relative economic power – threatens hegemonic leadership. The hegemon walks a tightrope between providing resources that sustain cooperation and dissipating its own power to provide those resources. Hegemonic leaders cannot retain their hegemonic power in the long run without constructing 'burden-sharing' rules within the cooperative framework to protect them.

Hegemonic leaders often attempt to shape cooperative institutions and rules that institutionalise burden sharing in order to protect themselves from this kind of resource drain. As noted above, paying a disproportionate share to maintain cooperation is not popular in a hegemonic state, and unpopularity threatens its government. Therefore hegemonic leaders try to shape cooperative systems to spread the costs among all members and maintain the economic strength required to provide an anchor for the system and maintain their own interests. But the moment when spreading the costs can lead to defection from cooperation is uncertain. Usually it is signalled by domestic political unrest in weaker countries when the cost of cooperation does not seem worth the benefits. We can only approximate the resources needed to provide the hegemonic leadership needed to prevent defection from the regime, and we have only the 20–20 hindsight of history to tell us when spreading the costs too thickly can lead to the demise of the regime itself.

Germany's hegemonic power

Leadership to strengthen cooperation is called 'hegemonic' because the state willing to provide it has the resources to do so. What are those resources? Keohane lists five kinds of resources that a state must possess in order to deserve the title of hegemon: control over raw materials, control over markets, control over sources of capital, a competitive advantage in the production of highly valued goods, and military superiority. After World War II, the United States was the only state left standing that could boast control in these five areas and showed a willingness to lead; as a result, the US was dubbed the world's hegemon (Gilpin *et al.* 2002). It lowered its trade barriers and ran trade deficits so that the economies of Europe and Japan could grow and cooperate in a free trade regime. It supplied Marshall Plan aid for European reconstruction and military security for its allies. In the creation of the first European Communities, the US acted as the 'external' hegemon, both paying the costs and taking blame for being heavy handed; the US's provision of security and aid prevented any one state within Western Europe from appearing dominant in the cooperative effort.

To assert that Germany has the resources to be a global hegemon would be ludicrous. As the world's fourth largest economy, and second largest exporter, it is considered a global 'great power'; but it lacks the military resources to provide traditional security in a European alliance, or to be a malevolent, land-grabbing imperialist. Military power is not relevant in the context of the European Union. Despite efforts to expand its powers in other issue areas, including a common foreign policy, the EU is organised to achieve the *economic* benefits of a free trade regime for its members first and foremost.[4] What Germany does have is resources to underwrite that effort.

With regard to Keohane's first measure, Germany is, like most EU states, dependent on other nations for raw materials, particularly energy. Indeed, Germany's lack of raw materials

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has historically been a justification for aggressive expansion. Although Germany may never 'control' sufficient energy resources within its borders, its energy independence is growing faster than in any other industrial nation (Buchan 2012). It is the largest producer of renewable energy in Europe (Eurostat 2012a); its connections with global energy suppliers are geared to assuring a secure energy supply through its export dominance (Germany is the largest exporter to the Middle East) and the expansion of German board memberships in foreign energy corporations. With its interlocking board directorates, 'German capital very much guards the energy back door of the EU, reaping a range of related benefits in [. . .] commercial exchanges' (Van der Pijl *et al.* 2010: 401).

The second of Keohane's measures is control over markets. No two countries benefit equally from a trading relationship. Depending on the size and structure of their economies, one country (usually the one with the lesser economy) may become disproportionately dependent on the other even as it becomes better off than it was before that relationship. When commerce with a larger country accounts for a very large proportion of the total imports and exports of a smaller economy, the latter is increasingly vulnerable to the larger country's influence. Germany and its neighbours find themselves in this position of dominance and vulnerability. Germany exports more goods and services to other EU states than any other member and remains the biggest exporter and import market in Europe. EU countries absorbed 59 per cent of Germany's exports in 2011, and few other European exporters can supply the products that Germany produces at the price that EU and eurozone membership enables. Clearly, Germany's exports also depend on the EU market, but its trade focus is shifting towards Asia and the developing world (see Chapter 25). Germany dominates the EU's global trade, and is the largest exporter to China and Russia. In 2012 Germany had by far the largest trade surplus of any EU member state; France and Britain, the next largest economies in Europe, ran trade deficits (Eurostat 2010; European Commission 2012; Fontes 2013).

The third source of hegemonic power is control over sources of capital. Companies in countries with large capital markets have deep pockets; they can draw on savings and their own export earnings in order to invest both at home and abroad. Governments can leverage large capital markets to advance foreign policy objectives, controlling access to markets in quid pro quo negotiations. Thanks to its booming economy, large trade surplus, and the highest ratio of savings to GDP in Europe (World Bank 2013), Germany is a magnet for foreign capital, rapidly becoming the largest capital market in Europe and providing ample credit for investors both in Europe and in the rest of the world. Germany also became the main supplier of intra-EU foreign direct investment (FDI)[5] *and* Europe's preeminent destination for FDI from both European and non-European firms.[6] Bursting with profits, German firms have achieved an unprecedented global centrality in mergers, acquisitions, and interlocking company directorates (Van der Pijl *et al.* 2010), and because Germany was the only major eurozone nation to escape the credit downgrades that have hit its neighbours, in 2013 foreign investors still overwhelmingly preferred to park their money in German banks.

A hegemon is the largest producer of value-added goods. It imports products that are labour intensive or produced with well-known production techniques. It produces and exports the capital-intensive products and those that will provide the basis for producing even more advanced goods and services in the future. Germany has a competitive advantage in the production of these goods in Europe, and one measure of that advantage is that Germany maintains the largest share of manufactured goods as a percentage of GDP in Europe, a third larger than that of France and Britain (CIA World Fact Book 2012). Additionally, the German industrial worker remains the most productive in Europe, as Germany is the European leader in heavy industry and in the production of high technology manufactured goods. In terms of

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patent applications per capita, Germany ranks first in Europe; moreover, Germany has the highest percentage of employees in knowledge-intensive services in the EU (Eurostat 2011).

Finally, Keohane notes, a hegemon must possess superior military power. But traditional military power has been rendered increasingly useless in a world where states no longer have a monopoly on violence, where overwhelming modern force cannot defeat tribal combatants living in caves, where computer hackers can potentially shut down a nation, where threats to the 'national interest' can come from the earth's atmosphere, where a crisis of confidence in a single economy (like Greece's) can bring the globe to the brink of economic disaster, and where, as Konrad Jarausch has written, 'havoc created by global capitalism [. . .] is beginning to rival the suffering caused by the nation state' (Jarausch 2006). Asking who won a given war in the last half of the 20th century and in the first decade of the 21st century is like asking who won the San Francisco earthquake. Germany is exceptional in that it has all but abandoned this hallmark of hegemony at a point in history where its usefulness to provide security has increasingly been called into question.

In sum, Germany possesses advantages that permit it to underwrite the free trade regime – or act as a hegemonic leader – in Europe. But has Germany been willing to do so? In what follows, I argue that in the 20 years since the Wall fell, the answer has been yes. Germany takes the lead in shaping the European institutions that bolster free trade, both to stabilise the free trade regime and to serve its own self-interest. It does not, however, shape those institutions alone. And, as I have noted above, hegemonic leadership has an Achilles heel: expenditure of resources to maintain cooperation can drain hegemonic power and cause domestic backlash; and not expending enough resources will cause the hegemon to lose legitimacy in the eyes of its partners, even triggering defection from cooperation. And as we shall see, although Germany has exercised hegemonic leadership in 'good' times, the Achilles heel of hegemony may prompt an unwillingness, or even an inability, to exercise that leadership in bad times.

German hegemony in Europe

Throughout history, states have achieved economic hegemony by the strengths enumerated here, but few have provided the kind of leadership that is necessary for cooperation in a free trade regime like the EU. Germany has supplied that leadership in providing the most support for cooperation as a whole, making side payments for cooperation in specific issue areas, and constructing European institutions that codified cooperation and burden sharing (Paterson 2011; Goetz 2004; Thomson 2010).

Germany is the largest net contributor to the EU budget, consistently paying almost twice as much as it has received. In contrast, France and the UK maintain relative parity between payments and receipts. France, in particular, has reaped the most benefit of any EU member from the Common Agricultural Policy funds to subsidise its farmers so that they would sign on to the cooperative European effort. In the realm of nonproliferation policy and export control, Germany is also the leader in cooperative efforts to stem the tide of weapons proliferation, imposing more stringent restrictions on its own high technology exporters than other members (Crawford 2007). Being by far the largest of the environmentally progressive countries in the EU, it is the most important of the three leaders in EU environmental policymaking. In diplomacy, Germany has been called the most important member of the EU3 negotiating team in the Middle East (Westcott 2008). Germany was the undisputed architect of the European monetary union (EMU). And to assuage fears of its dominance in these and other issue areas, Germany agreed to the relative overweighting of the less populous France, Britain, and Italy in EU voting and is notably underrepresented in qualified majority voting in the Council of

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Ministers (Posen 2005). Within the EMU Germany has contributed 27.1 per cent of the ECB's €6.36 billion in capital, but has the same voting rights as Malta, with 1 per cent, and Austria, with 2.1 per cent (Lawton 2012).

Leadership and self-interest in a free trade regime can be quite compatible. Hegemonic leaders benefit from the cooperative arrangements that they support, but that does not mean that others are disadvantaged. Analyses calling Germany a 'political dwarf' in Europe forget that the EU was and continues to be *primarily* a free trade regime. To create and sustain free trade in Europe, the EU was built as an organisation with a rule structure that continues to protect the single (free) market. Production standardisation, standard environmental regulation, standard rules for high technology exports, and cohesion funds to protect the less competitive and stimulate poorer regional economies all work to provide incentives to stabilise the single market. Still, the greatest economy benefits more from free trade than others. Even before unification, Germany as a reflexive multilateralist with the biggest economy benefited from each decision to enlarge and deepen the single market and to make it more efficient. Germany's growing export surplus confirms this.

In guiding policy development for the union, Germany is less than altruistic. For example, in environmental policy, Germany vied to have its standards accepted by the European Community as a whole in order to 'level the playing field' so that German exporters would not suffer from regulatory restraints that its European competitors did not share (Sbragia 1992). The same is true of the export control regime; German controls on high technology exporters were more stringent than those of their European competitors, and exporters wanted European standards to rise to Germany's level. Self-interested? Certainly; but most would agree that stiffer regulations to protect the environment or curb the export of dangerous high technology serve the common good in ways that go beyond creating a level playing field for trade. Finally, although Germany is the top contributor to EU cohesion funds, it is also the top *indirect* beneficiary of cohesion payments. Each euro that Germany pays into EU cohesion funds generates €1.25 in revenues from exports to new member states (EU Business 2012). Germany benefits most, but EU members agree that enlarging the single market benefits all.

Attention to self-interest deflects domestic criticism of hegemonic leadership. Exporters in Germany have benefited tremendously from the single market and from pan-European regulations that rise to German standards in order to create what exporters call a level playing field. These policies support not only domestic interests but deeply entrenched norms: German export philosophy regarded exports as a right of business; all state interventions needed specific and explicit authority. When important social groups benefit and a deeply entrenched worldview is upheld, hegemony is bolstered domestically.

Hegemonic leaders do not lead alone, and Germany is no exception (Pedersen 1998). There are in fact no 'lone' leaders in the EU. It is commonplace to note that Germany and France, as the original founders of the European Coal and Steel Community (ECSC), have long been the two 'pillars' providing dominant support for the European project – with, as Charles de Gaulle noted, Germany the horse and France the coachman of the European 'coach'. This image was fine for public consumption – reflecting France's need to assert great power status and Germany's need to keep a low profile after its defeat in World War II. In reality, however, it was Franco-German *agreement* as equal partners that was required for Europe to move forward.[7]

Germany is a co-leader in a number of issue areas. In diplomacy, Germany is one member of the EU3 with Britain and France, shaping policy together, albeit with Germany in the lead. In EU environmental policy, Germany leads together with Sweden and Denmark, the top three 'green' EU members. Although all 17 members of EMU are represented on the European Central

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Bank's governing council, Germany, along with France and Italy, has two votes by virtue of its seat on the executive board.[8]

Only since the gathering storm of the euro crisis have analysts referred to Germany as a 'hegemon'. The reference to Germany as a hegemon is found primarily in journalistic accounts of the crisis and then only in the negative sense discussed above (Pedersen 1998 and Crawford 2007 are the exceptions). In most of these accounts, Germany is described as the dominant but most blatantly self-interested state in Europe, with the power to lead but reluctance to do so. Some reports and opinion pieces – which fit into the analytic category of 'negative change' – read as if Germany has dominated Europe since unification but has acted in a short-sighted, self-interested, self-centred manner, imposing costs on others in order to reap the benefits of disproportionate power. Other pieces read as if self-serving German hegemony arrived full-blown on the scene with the wave of the euro crisis, whereas previously German hegemony was not acknowledged. In contrast to these accounts, I have suggested here that, with ample resources to underwrite cooperation, German foreign policy in Europe has evolved into that of a hegemonic leader as defined in the standard literature on hegemonic stability theory. Germany has been far from reluctant to underwrite cooperation. It assumes the largest financial burden in the EU, provides leadership in key issue areas, and as the largest economy and exporter reaps the benefits of leadership in decisions that enhance the single market. Evidence of self-interest is not evidence of policy 'change' unless self-interest harms the interests of others. Hegemonic stability theory explains why Germany agreed to make the greatest contribution to the EU budget. It explains why Germany does not lead alone, and why it acts to protect its interests in the free trade regime. Germany has been neither a 'reflexive multilateralist', a 'normal' narrowly self-interested power, nor a 'free-rider' on multilateral institutions. German hegemony in Europe has been the long unacknowledged elephant in the room.

The European Monetary Union and financial crisis: continued hegemonic leadership?

Will Germany always be capable and willing to be a hegemonic leader in Europe? On the road towards monetary union, Germany did play a leadership role, calling the shots and underwriting cooperation. But since the onset of the 2009 financial crisis, Germany has stopped short of providing stability to the monetary regime. Like the United States in the post-war international economy, Germany may prove to be a hegemonic leader in Europe only in 'good' times.

From the 'snake' to EMS

The history of monetary union in Europe provides a good case study of German hegemonic leadership – and highlights the consequences of the absence of leadership. As noted above, monetary union supports a free trade regime by lowering transaction costs and eliminating currency volatility. The blueprint for monetary union was a 1969 agreement (the Werner Plan), which was shelved because of disagreements over how the burden of cooperation should be shared – whether surplus (France's position) or deficit (Germany's position) countries should bear the lion's share (Crawford 2007: 124–6). Germany was not strong enough to get its way. In 1972 Germany introduced a substitute, called the 'snake,' which lined up European currencies in bands, allowing for upper and lower limits of currency value. Snake members agreed to joint intervention in exchange rate markets to keep member currencies within the band, buying up currencies that were dropping in value and selling those that were appreciating.

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In actuality, 'snake' members did not have the resources to stabilise exchange rates. Liquidity was in short supply, and interventions were few and far between. This meant that the burden of cooperation fell on the deficit countries, which would have to deflate their economies or leave the band altogether. And of course they left rather than deflate. By 1974 the 'snake' had failed, but European countries with export surpluses and therefore intense interest in stable exchange rates pegged the value of their currencies to the DM, creating a zone of exchange rate stability. But the peg to the DM meant that members would have to adhere to German preferences, coordinating macroeconomic policies to tighten belts, if necessary, in order to maintain price stability.

Because this DM zone was German dominated, German Chancellor Helmut Schmidt launched a multilateral initiative in 1978, creating a new common 'band', and a new institution, the European monetary system (EMS), with a new set of rules. Like the rules of the DM zone, the rules of the EMS conformed to German preferences: exchange rate stability would be backed by increased policy harmonisation according to anti-inflationary standards. The EMS was also backed by two safety nets – liquidity and intervention – for those with weakening currencies. Though the EMS was supposed to provide those safety nets, they were actually provided by Germany.

With large surpluses and an economy growing stronger by the day, Germany provided a central source of liquidity for the system. Throughout the 1980s, the Bundesbank bought falling currencies and lowered the discount rate to provide countercyclical lending (Ungerer *et al.* 1986, 1990; Marsh 1992). With Germany taking on the role of the hegemonic leader, the EMS proved to be remarkably successful in stabilising exchange rates. Stable exchange rates, in turn, benefited German exporters, and export surpluses continued to grow. But the single market could not ensure continued economic growth, particularly because the dollar devaluation after 1985 made European exports to the world relatively more expensive. Despite the liquidity that Germany provided, and the currency interventions and discounts that did occur, European exports slowed, unemployment in deficit countries grew, and economic growth was reduced to a snail's pace. As the situation in the deficit countries worsened, Germany proved unwilling to provide them with adequate loans, since German officials believed that increasing liquidity would put inflationary pressure on the system. The increasingly dire situation was exacerbated because the currencies of both deficit and surplus EMS countries were interlocked; economic fluctuations between them were reflected directly in rising unemployment and cuts in the deficit members rather than in a depreciation in value of their currencies. Many analysts attributed the worsening situation to the anti-inflationary (read deflationary) bias of the German-dominated exchange rate system. Although they benefited from the credibility that the DM 'anchor' had given their currencies, deflationary pressures and the pressure on exports rendered adherence to EMS rules increasingly painful for all but Germany, whose exporters continued to accumulate a surplus in intra-regional trade. As Kindleberger's argument would predict, cracks began appearing in the EMS.

From EMS to monetary union

Although Germany took on the hegemonic task of providing stable exchange rates in good times, it was unwilling to undertake the task of stabilising the system in bad times. In Germany's eyes, stability in bad times was the task of deficit, not surplus countries. But the EMS made no provision for deficit countries to tighten their belts in order to bring trade into balance. German leaders began therefore to prefer a tighter monetary union that would *require* deficit countries to deflate their economies. And all deficit countries were demanding more 'voice' in decisions

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on monetary cooperation in Europe. Indeed, both France and Italy 'complained with increasing vigor that the EMS had invested disproportionate power in Germany' (Grieco 1996: 290). Certainly not wanting to engage in deflationary policies, most EMS members believed (correctly, as it turned out) that monetary union would reduce interest rates – achieved by collectivising risk – which would make it cheaper for them to borrow, both to fund national budgets that fell into deficit and to prime the employment market lost through the failure of uncompetitive businesses. It seemed that the loss of national monetary sovereignty and potentially deflationary practices that Germany required became secondary concerns compared with these benefits. Therefore agreement among both surplus and deficit countries on the net benefits set the stage for monetary union.

In 1988, France and Italy took the initiative that led to EMU and the creation of a European Central Bank (ECB) that would give all members voting rights on the development of EU exchange rate policy. But the core rules of EMU were not subject to a vote, and those rules were constructed according to German policy preferences. Indeed, Germany quickly came on board in order to shape the new system, demanding an independent central bank dedicated to price stability, constraints on members' deficits and inflation (called 'convergence criteria'), and tight sanctions on defectors. Gone were the safety nets of the EMS. Indeed, Germany would not agree to a date for the final stage of monetary union until others agreed that those criteria must be met before a potential entrant could join the eurozone (Crawford 1998).

The 'convergence criteria' for membership of the eurozone represented a German effort to wrest some control over national budgets from member governments in order to achieve 'burden sharing' on the part of deficit countries. The criteria established common rules to ensure that members who made painful economic reforms would not face higher interest rates caused by members who did not make the same reforms. The rules defined 3 per cent of GNP as the upper limit for public deficits and 60 per cent of GNP as the upper limit for public debts. Members also promised to maintain an inflation rate not more than 1.5 per cent above the rate of the three members with the lowest inflation rates. These criteria were strengthened when Germany insisted on a Stability and Growth Pact (SGP) that created sanctions for defection. Any country breaching criteria for three consecutive years was subject to fines that could run to billions of euros. And the ECB as the guardian of price stability was not permitted to provide countercyclical loans or to be a lender of last resort for deficit members breaching the criteria.

In demanding these criteria, Germany relinquished a key function of hegemonic leadership that it had provided under the 'snake' and the EMS; neither Germany nor the ECB would provide loans or intervene in any other way to reduce recessionary pressures on members' economies. The strong German economy did provide one important component of Kindleberger's requirement for hegemonic stability, however: stable exchange rates.

Without loans and currency interventions, countries and regions feeling recessionary pressures had a smaller toolkit for reviving their economies than they had had under EMS. National control of interest rates had come to an end. Hamstrung by wage and labour inflexibility, European governments would normally use fiscal policy to carry much of the load of cushioning recessions, but fiscal policy had become severely circumscribed. Many economists argued that it made no sense to force countries in recession to cut public spending,[9] but eurozone members were not allowed to expand budget deficits beyond 3 per cent of GDP. But something was about to shift. Beginning in 1996, Germany fell into a sustained period of low growth and mounting fiscal burdens as unemployment skyrocketed, the population aged, and healthcare obligations festered. In order to ease the fiscal burden, the German government could have borrowed from within the EU capital market (to which it was the largest contributor), but borrowing would have raised interest rates across the EMU region, further contributing to

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deflationary pressures. Germany attempted to adhere to the SGP, cutting government spending to meet the requirements, and shoving the economy into deeper crisis. But by 2002 it had violated the pact and refused to pay the fine for doing so, following Portugal's breach and paving the way for France to break the pact as well. Germany flouted the SGP for four years, weakening the very rules for burden sharing that it had created. It would now be difficult to ask other eurozone members with chronic deficits to curb their borrowing and spending.

This did not seem to matter to the German leadership because Germany – as Europe's main exporter – was the chief beneficiary of the lower transaction costs that the euro introduced. And because, according to the director of McKinsey & Company, the value of the euro was 18–25 per cent below what the value of the DM would have been (*The Local* 2011), German exports were cheaper, not only vis-à-vis the exports of other major industrial nations but against all other members of the eurozone (*The Local* 2011; Norris 2011). Rather than providing a market for its trading partners' goods, Germany began to rack up a huge trade surplus with the rest of the EU. German exports increased fourfold from 2002 to 2010. In 2012, Germany's share of the wealth created by the euro was almost half the EU total. McKinsey management consultants attributed two thirds of German growth between 2002 and 2012 to the euro's introduction (Buergin 2012).

During the economic boom of 2003–8, German banks went wild with procyclical lending, extending credit on a massive scale to the eurozone's Mediterranean countries (De Guzman *et al.* 2010). And with that credit, they gobbled up German products, while Germany bought little from them. Between 2000 and 2007, Greece's annual trade deficit with Germany grew from 3 billion euros to 5.5 billion, Italy's doubled, Spain's almost tripled, and Portugal's quadrupled. In Germany, consumption of imports dropped, and the savings rate increased (Eurostat 2012b). But as the financial crisis escalated in 2009, lending abruptly stopped. Germany had failed two tests of a hegemonic leader: providing countercyclical lending and a market for distress goods (Matthijs and Blyth 2011).

The 2009 euro crisis

Recalling Kindleberger's argument, we remember that without hegemonic leadership in the form of a market for distress goods and aid to deficit countries in crisis, a fixed exchange rate system, and by extension a monetary union, will not survive. Germany had no intention of providing a market for distress goods, and, under Germany's direction, EMU had no provisions for such aid. Of course, between 2003 and 2009 it appeared that a hegemonic leader was not needed. As expected, the pooling of risk in the eurozone kept interest rates low, and along with German banks' liberal financing, allowed struggling countries to fund deficits and buy German goods.

But low interest rates were a temporary privilege, given the growing imbalances in the eurozone. In addition to funding the shopping sprees of debtors, low rates also spurred inflation in wages and goods in the economies of Germany's trading partners, which in turn made the exports of the Mediterranean countries more expensive and left imports relatively cheaper. The possibility of currency manipulation had been erased by the euro. In 2009 it became apparent that five members of the eurozone – Greece, Portugal, Ireland, Italy, and Spain – had failed to generate enough economic growth to pay back their debts. Investors were exposed and the threat of bank failures loomed. When the US financial crisis of 2008 hit Europe, a lender of last resort was nowhere to be found.

European leaders held a series of panicky meetings in spring 2010 to find such a lender. German Finance Minister Wolfgang Schäuble (2010) had apparently read his Kindleberger,

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and declared that the hegemonic stability thesis was more relevant than ever in Europe's current situation: he suggested that Germany and France should revive their old alliance and together become the hegemon of Europe – the hegemon that was missing in the 1930s. But for the next three years, this was not to be. Briefly it appeared that Germany would back the ECB as a lender of last resort. Members pooled their resources to raise €500 billion in conditional loans. And for the first time, the ECB intervened in markets to buy debt. Because Germany provided the largest share of contributions (30 per cent to France's 20 per cent and Italy's 17 per cent), German voters threatened a backlash. Chancellor Merkel insisted on bringing in the International Monetary Fund (IMF), which lent €250 billion in a move meant to ensure that Europeans would not bail out Greece alone.

Soaring interest rates and slowing growth in Spain, Italy, Portugal, Ireland, and France triggered more concerted action within the eurozone to raise bailout funds. In late 2012, eurozone members created the European Stability Mechanism (ESM), a treaty-based organisation capitalised at €700 billion with a lending capacity of €500 billion. Providing the bulk of ESM's capital, Germany retains veto power over its decisions. Borrowers are required to implement austerity measures and belong to the Fiscal Compact, a stricter replacement of the SGP. In addition, the ECB agreed to purchase bonds from countries in distress that promised to undertake austerity measures, in effect, forcing deflation.

One task of a hegemon, according to Kindleberger, is to lead an effort to coordinate macroeconomic policies. Germany insisted on austerity as the coordinating mechanism without any stimulus to spur growth. And austerity in the southern European periphery became the condition for the receipt of bailout funds. By April 2013, the number of unemployed workers in Spain and France had reached all-time highs: the number of unemployed in Spain – with an unemployment rate of 27.16 per cent – topped six million for the first time in history; five million were jobless in France, with an unemployment rate of over 10 per cent. The Greek economy contracted 20 per cent between 2008 and 2013. Meanwhile popular trust in the EU plummeted.[10] Photoshopped images of Chancellor Merkel dressed in a Nazi uniform became a common sight at angry protests across Europe. European support for Germany as the EU's hegemonic leader all but disappeared.

Austerity policies and their consequences signal the deepest failure of German hegemonic leadership in the monetary union: the failure to underwrite cooperation by creating conditions under which countries are better off with cooperation than without it – the failure to serve the common good by alleviating the stresses of free trade for deficit countries. By 2013 the temptation to defect from the monetary union had increased, with little prospect of Germany rising to the occasion to create economic stability. Whether the ESM will prove to be an effective lender of last resort remains to be seen. Germany has provided the bulk of the lending, but has not provided the necessary leadership to stabilise the monetary regime in crisis. But we must not forget that in the past Germany has stepped up to the plate, and the story of monetary union is not yet over.

Conclusion

In sum, the change–continuity debate over current German foreign policy is flawed in that it neglects the three-pillared essence of that policy: antimilitarism, multilateralism, and economic power. German policy clearly departs from 19th- and 20th-century expectations of how great powers should behave and from the policies of its political allies. Indeed, German policy has generally been consistent with its rejection of the hallmarks of power politics. Growing power has both permitted Germany to bear the lion's share of the burden of European cooperation

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and allowed various German governments to shape the terms of cooperation in the European Union. This does not mean that the rules of cooperation are shaped to serve only Germany's narrow interests – cooperation is a non-zero-sum game. All benefit from the cooperative endeavour and are better off than they were before cooperation, even though some will benefit more than others. We have seen this in issue areas as diverse as environmental policy, EU foreign policy, export control of high technology, and the European single market, to name an important few.

The saga of Germany's role in the European monetary union suggests that Germany has partially carried out its role as hegemonic leader, with its dominant contribution to relief for debtor members and the banks who loaned money to them, and its insistence on making the rules. But Germany may be taking burden sharing too far, in insisting that the burden of cooperation be placed on the backs of deficit countries. Leadership means not only shaping the terms of cooperation, but using resources to stabilise the regime by helping those who are tempted to defect. Will Germany continue in its role as Europe's hegemonic stabiliser?

Notes

1 I would like to thank Benjamin Schaub for his assistance with this essay.
2 Germany violated the Treaty of Versailles; the United States violated all of the treaties it made with Native Americans; it also violated the Convention against Torture in 2006, and the Vienna Convention in 2009; India, Pakistan, and Iran have violated the Nuclear Non-Proliferation Treaty.
3 A monetary union in many ways resembles a fixed exchange rate regime, whereby countries retain national currencies but agree to adjust their relative supply to maintain a desired rate of exchange to which all members adhere. A monetary union is an extreme form of a fixed exchange rate regime, but because the countries switch to a new currency, the cost of abandoning the new system is much higher than for a typical fixed exchange rate regime, providing more confidence that the system will last. See Bergin (2007).
4 In total 94.2 per cent of the EU budget is devoted to shoring up and administering the free trade regime. This includes funding for the Common Agricultural Policy, rural development and fisheries, administration, regional competitiveness, and economic cohesion. The composite effect of these expenditures is to create a regime within which equal standards and economic conditions will allow for efficient free trade (BBC 2012).
5 Foreign direct investment is the net inflows of investment to acquire a lasting management interest (10 per cent or more of voting stock) in an enterprise operating in an economy other than that of the investor.
6 In 2011 Germany was listed as the fifth most attractive destination for foreign investment worldwide (*Research in Germany* 2010).
7 When Germany rejected France's intergovernmental Fouchet Plan, it fell through. The Franco-German Friendship Treaty codified the *equal* status of the two countries. As noted below, as German power grew, Germany got the euro it wanted when France caved in to German conditions. When France attempted to create a European aerospace industry to rival Boeing, Germany rejected it and it fell through. France was not able to convince Germany to join the intervention in Libya. And France was not able to tame Germany's demands for austerity in the eurozone crisis.
8 The executive board of the ECB has six members, and its governing council 23 (the 17 national central bank governors and the six executive board members). The executive board comprises currently one Italian (the president), one Portuguese, one German, one French, one Luxembourg and one Belgian member. *De jure* each country has one vote via its national central bank president; *de facto*, however, Germany has two votes because of its seat on the board.
9 Martin Baily, a former chairman of Bill Clinton's Council of Economic Advisers, called it 'Hoover-era economics' and Francis Mer, the French finance minister, said that the requirement for cutting spending had forced Portugal into an 'irredeemable recession' (quoted in *The Economist* 2003).
10 In a Eurobarometer poll, 42 per cent of Poles, 53 per cent of Italians, 56 per cent of French, 59 per cent of Germans, 69 per cent of Britons, and 72 per cent of Spaniards said they did not trust the EU as an institution.

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