EMU CHOICES

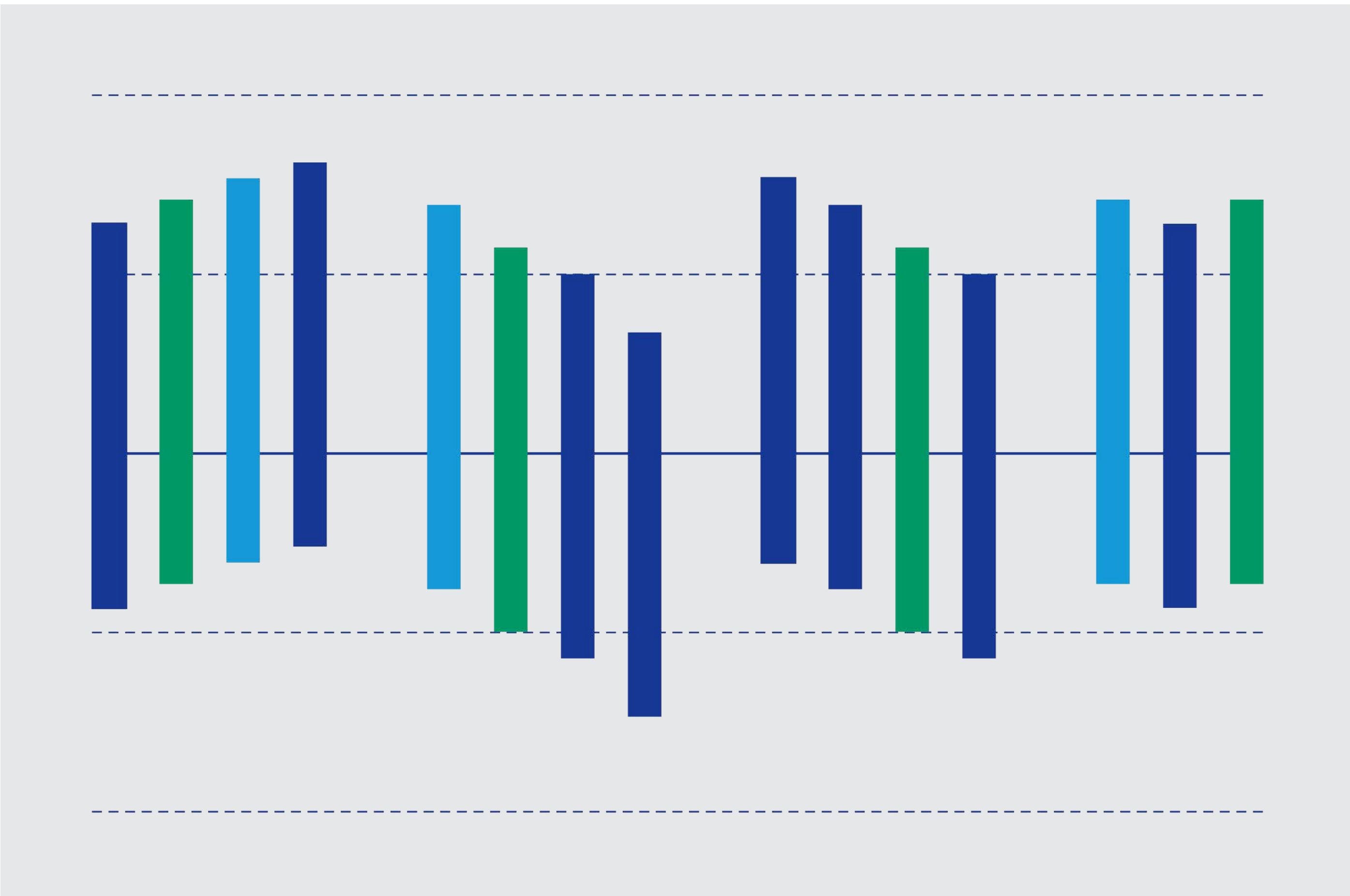
THE CHOICE FOR EUROPE SINCE MAASTRICHT
SALZBURG CENTRE OF EUROPEAN UNION STUDIES

CONSORTIUM PARTNERS
UNIVERSITY OF BASEL
UNIVERSITY OF EAST ANGLIA
CENTRAL EUROPEAN UNIVERSITY
UNIVERSITY COLLEGE DUBLIN
UNIVERSITY OF GRENOBLE
UNIVERSITY OF KONSTANZ
LUISS ‘GUIDO CARLI’ ROME
UNIVERSITY OF SALZBURG
UNIVERSITY OF STOCKHOLM

Powerful Engine or *Quantité Negligeable*? The Role of the Franco-German Couple during the Euro Crisis

Hanno Degner and Dirk Leuffen

EMU CHOICES WORKING PAPER SERIES 2017



This project has received funding from the European Union’s Horizon 2020
research and innovation programme under grant agreement No. 649532

www.EMUchoices.eu

Hanno Degner (hanno.degner@uni-konstanz.de)
Dirk Leuffen (dirk.leuffen@uni-konstanz.de)

Powerful Engine or *Quantité Negligeable*? The Role of the Franco-German Couple during the Euro Crisis

Date: 28.09.2017

Abstract

This paper analyses Franco-German co-operation during the Euro Crisis. We argue that the so-called 'Franco-German engine' exercises important gatekeeper but also facilitating functions in EU policy-making. We claim that French and German positions on EU politics oftentimes differ initially, so that joint initiatives result only after bilateral policy coordination. Because these two countries represent different 'camps' inside the EU, their initiatives are generally viable for most other member states as well. In such a perspective, Franco-German policy-coordination reduces the overall transaction costs of EU policy-making. At the same time, France and Germany filter out proposals that are unacceptable to at least one of the two countries, and thereby reduce the choice set in EU level negotiations. Our empirical analysis of Franco-German policy-coordination during the Euro crisis, which combines new, original data from the EMU|Choices project with causal process observations largely corroborates our model. We show that the Franco-German engine shaped but also limited the choice set of policy solutions for reforming Economic and Monetary Union.

I. Introduction[1]

Non-academic coverage of EU politics regularly attributes an important role to Franco-German cooperation, oftentimes captured under such titles as the Franco-German 'couple', 'tandem', or 'engine'. While some observers criticize its alleged undemocratic foundations and gauge its effects to be detrimental, others tend to deplore the *absence* of Franco-German policy coordination as a major reason for stagnation in European integration, or as the cause for the EU's incapacity to respond adequately to pressing problems. Our paper investigates whether a 'Franco-German engine' really matters in EU policy-making. From an analytical perspective, we ask whether it exists, and if yes, how it works, under which conditions, and with what effects?

In order to find answers to these questions, this paper analyses Franco-German cooperation during the Euro Crisis 2010-2014. In this period of time, EU member states adopted a range of important reforms of the European Economic and Monetary Union (EMU), including the set-up of a permanent fiscal stability mechanism, the ESM, the overhaul of fiscal and economic governance with the Six-pack, the Two-pack, and the Fiscal Compact, or the introduction of the Banking Union (Schimmelfennig 2015, Degner 2016). Other policy proposals, however, did not find sufficient support in the Council or the European Council, e.g. the introduction of Eurobonds.

Which role did Franco-German cooperation play for these diverging outcomes, if any? The literature does not provide a clear answer to this question, so far. While some authors suggest that since 2010 the two major continental powers once again joined their forces to push integration forward (Schild 2013a, Crespy/Schmidt 2014), others hold that they rather abandoned their collective leadership role (Bulmer 2014, Dinan/Nugent/Paterson 2017: 373), turning Franco-German collaboration into an insignificant '*quantité négligeable*' during the Euro Crisis.

With the present paper, we add to this debate. We argue in particular that Franco-German coordination facilitated, but also restricted European Union (EU) policy-making during the crisis by narrowing the choice set available to the other member states. Building on previous work by Leuffen, Degner, and Radtke (2012), we present a non-formalized model of the Franco-German engine. This model holds that EU policy change becomes more likely if France and Germany come up with joint proposals that are viable to other member states as well. This, in turn, is more likely when the initial preferences of France and Germany on a given policy proposal diverge. Since Germany and France represent different groups of member states in the EU, e.g. a 'Northern' and a 'Southern' group, respectively, joint Franco-German initiatives are likely to represent viable solutions for the entire EU. The informal delegation of negotiations to these two countries reduces transaction costs and speeds up the decision-making process; in such a perspective France and Germany negotiate as delegates for larger member state camps. The speeding up of decision-making may be particularly relevant in crisis times, which are marked by strong time pressure and high public attention for the affected policy area (Degner 2018). The outcomes of Franco-German negotiations should reflect the respective bargaining power, based on the aggregate structural power as well as the issue-specific power of these two states (Tallberg 2008). Importantly, if Franco-German coordination on certain issues fails because their positions remain irreconcilable, there is a high likelihood that these issues

[1] A previous version of this paper was presented at the EMU|Choices Mid-Term Conference in Rome on July 7th 2017. We particularly thank Kerstin Schembera (née Radtke), Stefanie Walter, Jeffrey Frieden, Sonja Puntscher-Riekmann, as well as Thomas Winzen for helpful comments.

are dropped before EU level negotiations with the other member states even start. We consider this to be an important addition to the literature on explaining EMU reforms during the Euro Crisis since Franco-German coordination effectively reduces the choice set available at the EU or Eurozone level.

As an empirical strategy, we combine descriptive analyses of large-N data provided by the EMU|Choices project with causal process tracing. By locating France and Germany in the preference spectrum on EMU reforms, we show that the two countries, indeed, generally differed in their initial positions on contested proposals during the Euro Crisis. Moreover, we find that they represent larger groups of countries in the negotiations that took place between 2010 and 2014. In line with previous studies (Selck/Kaeding 2004, Thomson 2009, Leuffen/Degner/Radtke 2012), our analysis reveals that the outcomes of the interactions reflect compromise solutions that are almost equally distant from the French and the German ideal points. Our process-tracing analysis of three policy proposals, i.e. the European Stability Mechanism (ESM), the Fiscal Compact, and the Banking Union, shows that Germany and France, indeed, engaged in intensive coordination, and that their joint proposals oftentimes paved the way for joint EU or Euro area solutions. Yet, the two countries also managed to erase certain issues from the EU negotiation table, including Eurobonds, the set-up of an insolvency law for Euro area member states, or the institutionalization of a European Deposit Insurance System. With these insights into the mechanisms of the Franco-German engine during the Euro Crisis, our paper not just contributes to the literature on Franco-German cooperation in European integration, but also adds to our understanding of EMU reforms, more generally.

II. A Model of the Franco-German Engine

Our non-formalized model of the Franco-German engine assumes utility maximizing actors, who act in an institutionalized environment. Furthermore, we assume that EU policy change, at least in matters relating to high or 'history-making' politics (Peterson/Bomberg 1999), needs the consent of both partners, France and Germany. Their support thus is a necessary condition for reforms at the EU-level as well as in the Eurozone. It is, however, not a sufficient condition for enacting change, since this demands the support of the other member states as well.

One potential explanation for the prevalence of Franco-German policy initiatives in EU negotiations would focus on their combined bilateral economic and political power. In our view, however, such an explanation too easily discards the role of the other member states, which hold formal, or at least informal, veto power in the hyper-consensual EU (Hix 2007: 145). We therefore propose a more complex understanding of the Franco-German engine and make the argument that France and Germany manage to shape EU policy not because the two countries generally *agree* on policy, but rather because they *differ*. In other words, we argue that the strength of the Franco-German engine is not based on strong policy agreement or 'harmony' (Keohane 1984: 51) between these two countries, but rather lies in their willingness and capacity to overcome substantive differences. This corresponds to Webber (1999: 16), who argues that "[p]aradoxically, 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" (Webber 1999: 16). In a similar vein Schild (2010: 1384) considers that "at the European level, leadership ambitions will be more acceptable if France and Germany can convince their partners that it is exercised in the name of common European goals and not only in the national interests of the two presumed leaders".

In our understanding, other member states regard Germany and France as policy brokers, which reconcile different camps inside the EU. In matters of economic policy, France most likely represents the interests and ideas of Southern member states, whereas Germany would represent the Northern ones (Brunnermeier/James/Landau 2016). Franco-German negotiations, in such a perspective, bring together two major "*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). The two countries at the centre of Europe then can be considered to act as representatives or "proxies" (Koopmann 2004, 13, as cited in Schild 2010: 1371), for 'their' hypothetical coalition. This can be linked to the a principal-agent framework, where both countries can be regarded as agents (Miller 2005) representing other EU member states which are part of their hypothetical coalitions. For these principals, the delegation of the negotiations to France and Germany lowers transaction costs, since interactions between two actors promise to result in more stringent results as negotiations between all 28 EU member states. Other EU member states can thus hope for a 'sounder' policy outcome as well as a quicker resolution of conflicts, which is especially appealing in a crisis context. Bilateral negotiations of the two most powerful EU member states may thus be considered as beneficial by other governments, who at the end of the day may always threaten to veto any Franco-German proposal.[2] Our understanding of the effect of Franco-German cooperation is broadly in line with earlier contributions to the literature, in which the concept has been linked to leadership (cf. Paterson 2009, Schild 2010, 2013a) or "steering capacity" (Wood 1995). For Webber (1999: 3) „[t]he analogy of the 'motor' or 'engine' implies that these two states have supplied the power or momentum which has driven or propelled the integration process".

The first step of our model focuses on bilateral contacts between the governments of France and Germany and their subordinate bureaucracies (cf. Mazzucelli 1997). If an EU-related policy proposal becomes politically salient, e.g. because of the outbreak of a crisis (Kingdon 2003[1984]: 94), we expect the two governments to bilaterally exchange information to find out whether their preferences concerning this particular proposal overlap or whether they have different understandings, ideas or preferences about the right solutions of the related political problem. If French and German positions are in agreement or overlap substantively, there is 'harmony' and the two partners can easily formulate a joint proposal for subsequent EU level negotiations.

In case of 'initial dissent', however, the two partners will engage in policy coordination to overcome their disagreements; this is the second step of our model. It reflects Keohane's (1984: 51) understanding of cooperation, i.e. the understanding that "[c]ooperation occurs when actors adjust their behavior to the actual or anticipated preferences of others, through a process of policy coordination." There are, indeed, numerous channels that facilitate Franco-German cooperation. Naurin and Lindahl (2008: 74) for instance note that "[w]hen looking at cooperation patterns, the Franco-German axis […] certainly does not seem to have lost momentum. In fact, Germany is number one on the French list of most frequently mentioned cooperation partners, and France is number one on the German list". This is echoed by data from Thurner, Pappi and Stoiber (2002: 154), which also

[2] Formally the veto only exists in case of unanimity in 'high politics'. In most other issues of 'low politics' or 'day-to-day policy-making', voting usually happens under qualified majority; although even here a consensus generally is the norm (Mattila 2009, Lewis 2010).

reveals close network ties between the French and German administrations. On the top political level, the so-called Blaesheim meetings regularly bring together the French President and the German Chancellor. In addition, since 2003, the Franco-German Council of Ministers officially reunites French and German ministers once or twice a year.

Following bargaining theory, the location of a joint Franco-German proposal should be determined by the partners' bargaining power. Tallberg (2008) distinguishes two sources of state power, namely aggregate structural power and issue-specific power. Especially the issue-specific power should be able to explain variation in proposals across different policy issues. If both partners are equally equipped with bargaining power, the compromise should entail more or less even concessions from both parties. However, when bargaining power is unequally divided – for instance, if one partner is very much satisfied with the status quo (Moravcsik 1993) – the compromise should reflect the position of the more powerful actor more strongly. In extreme cases, the weaker partner may even cede its position and accept the preferred policy of the stronger partner. We hypothesize that Germany and France are more likely to compromise on contested policy issues when their respective costs of maintaining the status quo are high. If one of the partners sticks to the status quo, coming up with an innovative solution is cumbersome. The country that wants changes to be enacted will need to concede more. In turn, when doing nothing is not an option, e.g. when the EU or the Euro area face a serious, urgent threat, both partners should be ready to compromise. Accordingly, in such a scenario it is most likely that France and Germany may come up with a joint policy proposal.

Compromises are particularly hard to negotiate when governments face dichotomous choices.[3] For the Euro Crisis, it has repeatedly been argued that fundamentally irreconcilable policy paradigms clashed. For example, Brunnermeier et al. (2016: 17) speak of "differences in economic philosophy and traditions of political economy between France and Germany", about "profoundly contrasting […] worldviews (Weltanschauungen)" and an "incompatibility of thought" between France and Germany (Brunnermeier/James/Landau 2016: 40f, cf. also James 2012). Hall (2012) more generally "locates the roots of the crisis in an institutional asymmetry grounded in national varieties of capitalism, which saw political economies organised to operate export-led growth models joined to others accustomed to demand-led growth". Accordingly, it may be hard to establish in-between solution reconciling different varieties of capitalism. Such issues may also make it difficult to create package deals across different issues in the same policy field, without creating inconsistencies. Following Bachrach's and Baratz' (Bachrach/Baratz 1962) concept of the 'second face of power', we expect that Franco-German cooperation may erase issues from the EU agenda. If France and Germany find it impossible to reach agreement on a given set of issues within a policy proposal, a future failure to pass such a proposal in the Council or the European Council is very likely. Therefore, such proposals are likely to be dropped from the agenda already at this stage of EU decision-making. Franco-German interactions thus importantly shape the EU's choice set. The analysis of such 'non-dits' are of utmost importance for understanding what actually happened in the process of saving the Eurozone, since just focussing on those issues that finally made it to the official agenda would represent a severe form of selection bias. In view of our research questions, if an issue is dropped after Franco-German negotiations, and therefore cannot be passed at the EU level, this would underline an important causal effect of Franco-German cooperation in EU policy-making.

[3] Note that a similar logic applies to indivisible goods (Fearon 1995).

By contrast, if Germany and France do agree on a joint proposal, the third step of our model is initiated. In intergovernmental negotiations, the other EU member states may 'accept', 'amend' or 'reject' the Franco-German proposal. As already highlighted above, we expect a Franco-German proposal to find support from other member states because of their initial preference diversity that reflects broader cleavages within the EU. If a Franco-German compromise is viable for the other member states, the policy can be adopted and enacted. In case of gridlock, the status quo may prevail, renegotiations may start, or Germany and France may decide to pull the exit card. This was for instance the case with the Saarbrücken Agreement of 1984, which preceded the Schengen regime (Leuffen/Degner/Radtke 2012: 62f). Germany and France may also threaten the other member states with this exit option in order to achieve agreement in the Council or the European Council on their joint proposal.

Figure 1 about here.

Figure 1 sums up the three possible outcomes developed above. To recapitulate, outcome I dubbed 'success' links the passing of new EU policies to successful Franco-German policy coordination. Delegating negotiations to France and Germany reduces overall transaction costs and in this scenario their joint proposal resonates with the other member states preferences and bargaining power. Outcome II ('no success – joint proposal rejected') results if Germany and France take an initiative that does not find the necessary support of the other member states. This may be the case if they defend outlier and not compromise positions. This may be more likely if France and Germany already agree on a common position at the outset, i.e. in the case of initial harmony. Outcome III ('no success – proposal dropped') expects the contested proposal to be dropped from the EU negotiation table following failed Franco-German coordination attempts. This is most likely to occur if the costs of the status quo are limited for one or for both sides. Furthermore, if an issue only allows for binary choices, a negotiation failure should be more likely.

After having introduced our simple model of Franco-German cooperation and after having formulated a number of scope conditions under which we expect the different outcomes to result, we will now turn to the empirical part of our analysis. Of course, we need to reiterate that a model is a stylized attempt to grasp empirical reality and we are fully aware of the fact that in reality the different steps of our model may empirically intermingle with one another. For example, if no solution can be worked out at the European negotiation table, a proposal may again be re-negotiated in a bilateral Franco-German arena. In reality, there may thus be stronger movement back and forth between the different steps distinguished by our model.

III. Methods and Data

The empirical test of our theoretical claims is performed in two steps. First, we present a quantitative analysis of a new, original dataset from the EMU|Choices project.[4] It covers member state positions on all major reform proposals under negotiation during the Euro Crisis. We analyse the correlations

[4] Find more information on the project webpage: <http://www.emuchoices.eu> (accessed 01.09.2017).

and average distances of France, Germany, and further selected member states on 47 highly salient issues under negotiation between 2010 and 2014. These issues are related to six broader policy proposals, namely the Greek financial assistance packages, the bailout mechanisms (EFSF and ESM), the Six-Pack on Economic Governance and the subsequent Two-Pack, the Banking Union, the Fiscal Compact, as well as several future-oriented policies such as the Financial Transaction Tax (FTT) or Eurobonds. Members of the EMU|Choices project consortium collected the data in 2015 and 2016. The structure of the dataset and the data collection process are described in the introduction of this special issue.

The analysis of the positioning of Germany and France in the policy space informs us about whether the two countries usually operated in 'harmony' during the Euro Crisis, or rather displayed 'initial dissent' on the various issues on the negotiation table. We thus provide evidence related to the first part of our model. We moreover assess the alignment of the French and German positions with the outcomes, as well as with the positions of other EU member states that share the two countries' respective ideological stances on economic and fiscal policy. This provides initial evidence related the third step of our model. Besides this, our analysis follows up on prior quantitative studies of the Franco-German engine in day-to-day politics (Selck/Kaeding 2004, Leuffen/Degner/Radtke 2012).[5]

Second, we conduct three qualitative mini case studies on selected reform proposals within the EMU|Choices dataset: 1) the European Stability Mechanism (ESM), 2) the Treaty on Stability, Coordination, and Governance in the Economic and Monetary Union (TSCG, commonly referred to as the 'Fiscal Compact'), and 3) the Banking Union. These three policy packages cover 25 of the 47 contested issues in the EMU|Choices dataset. In Gerring's (2007) terminology, the three cases represent a 'diverse case' sample, as they vary on several key dimensions, most notably in terms of their substantive focus. The ESM is directly related to fiscal redistribution among Euro area member states, the Fiscal Compact harmonizes fiscal and budgetary policies of most EU member states, and the Banking Union introduces a strong supranational role in the regulation of the financial markets in the Euro area. The mini case studies draw on primary and secondary written sources, notably official EU and governmental documents and quality newspaper articles. By using the method of theory-testing process-tracing (Beach/Pedersen 2013), we unveil the mechanisms of Franco-German cooperation and their impact on European policy-making during the Euro Crisis. This helps us to test all parts of our theoretical model, but particularly the second and the third part. The value of process-tracing methods is increasingly accepted in the field, even amongst formal modellers (Lorentzen/Fravel/Paine 2017).

IV. Quantitative Analysis: France, Germany, and EMU Reforms during the Euro Crisis

Table 1 replicates previous work by Selck and Kaeding (2004) and Leuffen, Degner, and Radtke (2012), which analysed the positions of EU member states in day-to-day politics across the full range of EU policy areas covered by the DEU/DEU II datasets, respectively. The upper part of our table presents information on the correlation between France, Germany, Italy, the United Kingdom, the Netherlands, Poland, Finland, Spain, Portugal, and the respective outcomes of the European

5 Note that we excluded issues for which information on one or both actors of these dyads was missing during the calculation of average distances.

negotiations in the EMU|Choices dataset. The lower part depicts the average distances over these countries and the outcomes. Issues for which information on one or both actors of the respective dyads was missing were excluded from the calculations.

Table 1 about here

In line with the theoretical expectation formulated in the first step of our model, the data shows that the initial positions of France and Germany are quite distanced from each other; the average distance of their positions is 66.6. 'Initial dissent', and not harmony, was thus usually present between the two countries at the outset of EU level negotiations during the Euro Crisis. The distance between France and Spain, by contrast, is only 11, with Portugal (15.2) and Italy (16.4) being similarly close to France. The average positions of Germany and the Netherlands diverge by 34.3; a similar distance separates Germany and Finland (33). The most distanced countries in this sample are the Netherlands and Italy (79.1) and the Netherlands and Spain (also 79.1); by contrast, the Netherlands and Finland show the strongest overlap with an average distance of about 6.5. The distances between Germany and France on the one hand and the non-Euro members Poland and United Kingdom show that Poland was generally closer to France and Germany (41.1 and 46) than the UK (59.2 and 56.4). Both Poland and the UK show the strongest overlap of positions with each other (29.5).

The correlations reveal a very similar picture. The positions of France and Germany are negatively correlated, but not as strongly as those of France and the Netherlands. France, Italy, Spain and Portugal show a strong positive correlation, as Germany, the Netherlands and Finland do. The positions of Poland and the UK are weakly correlated with all other countries, except for the relatively strong correlation amongst one another.

These results underline that the preferences of EU member states on contested issues during the Euro Crisis, indeed, differed according to whether a country was located in the 'North' or in the 'South' (cf. also Wasserfallen/Lehner 2017). Interestingly, the non-Euro members, and this especially holds for the UK, do not belong to either group. The differences are much stronger than in day-to-day decision-making, where the distance between, for instance, the ideal positions of Germany and the Netherlands is only marginally smaller than the distance between those of Germany and France (33,1 vs. 35,1), while neither Poland nor the UK occupy 'outsider' positions (Leuffen/Degner/Radtke 2012: 56f). We thus detect some important policy-specific characteristics.

How well did the different states perform in the negotiations? A simple means to establish success is to take a look at the distances between the initial positions of member states and the outcomes of the negotiations, which are also contained in the EMU|Choices dataset. The average distance of France to the outcome is 43.6; Germany's positions on average are 47.0 points away from the outcome. For both countries, the corresponding correlations are weak (0.08 and 0.03, respectively). The same holds for the Netherlands (average distance = 50, correlation = 0), Portugal (44.4 and 0.2), Italy (43.4 and 0.2), and Finland (40 and 0.2). The ideal positions of Poland and the UK, by contrast, are relatively closer to the outcomes (37.4 and 29.5, respectively), and show a much stronger correlation (almost 0.5 and 0.4, respectively). Yet, this should not be interpreted as a sign of great bargaining power of the two non-Euro area countries, which oftentimes did not even take part in the Euro-area exclusive negotiations. Most importantly, these findings indicate that the final outcomes of EU level negotiations seem to represent compromises between the two camps, arguably led by Germany and France, which provides initial evidence in support of the third step of our model (for a more detailed analysis, see Lundgren et al. 2017).

In order to get a better understanding of the causal mechanisms of EMU decision-making during the Euro Crisis and the role of the Franco-German engine therein, we now turn a process tracing analysis of three mini case studies. These case studies should test, whether France and Germany actually engaged in bilateral policy coordination and which role these two countries played in brokering the final outcomes of the broader EU level negotiations.

V. Qualitative Analysis: The Franco-German Engine at Work During the Euro Crisis

In the following we analyse Franco-German cooperation in the context of EU negotiations on 1) the European Stability Mechanism (ESM), 2) the Treaty on Stability, Coordination, and Governance in the Economic and Monetary Union (TSCG, often called 'Fiscal Compact'), and 3) the Banking Union (BU) between 2010 and 2014.

Case Study 1 - ESM

The institutionalization of the ESM can be considered a 'success' of the Franco-German engine. Corresponding the first step of our model, the outbreak of the Euro Crisis in early 2010 turned the set-up of a permanent fiscal emergency mechanism into a salient issue for member state governments (Degner 2018). The French and German governments quickly engaged in Intensive bilateral exchanges on potential solutions for this and other questions related to resolving the crisis in spring and summer 2010. It turned out that Germany and France shared a strong general preference for preserving the Euro and for fostering integration if necessary to this end (Schimmelfennig 2015: 183). Yet, they initially disagreed on at least six of the seven most contested issues (the EMU|Choices dataset does not contain the French position one issue). In particular, Germany favoured the ESM to be restricted in its size (500 billion Euro lending capacity), its scope (only lending to MS governments, not e.g. private banks), and its sources (only MS guarantees, paid-in capital, and money raised from fines that MS in breach of the stability and growth pact have to pay. France, by contrast, aimed for a much bigger ESM, granted with a banking license and thus de-facto unlimited resources, which it could use for a broad range of operations at the markets. Table 1 in the online appendix provides a detailed overview on the French and German positions and the outcomes for the seven most contested issues in the ESM negotiations.

In line with the second step of our model, the two governments engaged in bilateral negotiations to find potential compromises. The first result of this search was the (in)famous "Deauville Declaration" of October 18th 2010.[6] In this document – a single page containing 379 words – France and Germany laid out a 'Grand Design' for a lasting European response to the Euro Crisis. In the following 18 months, French President Nicolas Sarkozy, who remained in office until May 2012, continually met with German Chancellor Angela Merkel in Berlin, Paris, Frankfurt, or Brussels before European

[6] Find the document online at <http://www.eu.dk/~/media/files/eu/franco_german_declaration.ashx?la=da> (accessed 25.06.2017).

Council meetings in order to resolve their disagreements on the details of the EU's response to the crisis. During the ESM negotiations, i.e. between October 2010 and February 2012[7], the French President and the German Chancellor scheduled 14 bilateral meetings. At times, they invited additional guests such as European Council President van Rompuy, the Italian Prime Minister Monti, or International Monetary Fund (IMF) Director Lagarde. Eight bilateral meetings took place in direct preparation of European Council meetings or Euro Summits, resulting in joint proposals that were fuelled into the broader EU level negotiations.[8] Through their negotiations, the two government leaders arrived at a number of "common or shared positions that were later imposed in the following formal meetings of the heads of state and government" (Fabbrini 2015: 138f, cf. Krotz/Schild 2013: 205ff). Franco-German coordination at that time was so intense that observers began to speak of the 'Merkozy' duo (Bulmer 2014: 1254). Only in February and March 2011, when two European Councils and one Euro Summit took place, there were no prior Franco-German meetings at the highest political level. Yet this does not preclude that below that level, finance ministers and ministerial staff were not in constant contact with each other to find agreement on the details of the ESM term sheet that was adopted by the European Council on March 25th 2011.[9]

The term sheet, which essentially represents a Franco-German compromise[10], and further joint Franco-German proposals on the details of the mechanism are largely mirrored in the ultimately adopted ESM treaty. This corresponds to the third step of our model. Germany finally got its way on the size, the scope, and the sources of the ESM, as well as on two further issues, i.e. the explicit link with the Fiscal Compact, and the role of supranational actors in the enforcement of adjustment programmes. Only on two issues, namely the involvement of the private sector (PSI), and the scope of the EU treaty change, the outcomes are closer to the French position. This mirrors the strong German bargaining power, resulting from its economic strength in particular and the asymmetric interdependence of 'Northern' and 'Southern' EU member states during the Euro Crisis more generally (Schimmelfennig 2015). Beyond that, it underscores the 'package deal' character of the parallel adoption of the ESM treaty and the Fiscal Compact on March 2nd 2012: In order to secure the adoption of the Fiscal Compact by its European partners, Germany agreed to soften the wording of the ESM treaty on PSI.[11] And although the new Art. 136.3 TFEU only allowed for the introduction of the ESM and did not strengthen the EU's fiscal rules, the Fiscal Compact effectively represents the kind of primary law-based fiscal rule tightening that Germany aimed to achieve.

---

7 Information on these meetings can be found at <http://www.france-allemagne.fr/Die-deutsch-franzosischen,0586.html>, the online archive of the Frankfurter Allgemeine Zeitung at <https://fazarchiv.faz.net>, and (Krotz/Schild 2013).

8 See e.g. the Franco-German Communiqué of 07.08.2011, online at <http://www.france-allemagne.fr/Gemeinsames-deutsch-franzosisches,6215.html>, or the Franco-German Letter to the President of the European Council of 08.12.2011, online at <https://franceintheus.org/spip.php?article3029> (accessed 25.06.2017).

9 See <http://www.spiegel.de/international/europe/competing-visions-france-and-germany-split-over-plans-for-european-economic-government-a-737423.html > (accessed 25.06.2017).

10 This information was confirmed by two interviews with senior staff from the German Federal Ministry of Finance, conducted in February and March 2016.

11 Cf. <http://www.reuters.com/article/eurozone-esm-germany-idUSLDE7B300P20111204> (accessed 25.06.2017).

Regarding Eurogroup President Juncker's proposal of December 5th 2010 to introduce so-called 'Eurobonds' instead of setting up the ESM as an intergovernmental fiscal emergency mechanism[12], Germany and France initially disagreed. Germany strictly opposed the idea of joint debt bonds for the Euro area, whereas France was principally in favour. [13] Yet, following several rounds of bilateral negotiations in autumn 2010, both German Chancellor Merkel and French President Sarkozy jointly declared their opposition to Eurobonds after their bilateral Freiburg meeting on December 10th 2010.[14] Corresponding to Outcome III of our model, the proposal was thus dropped from the EU negotiation table. The French President officially stuck to his opposition in 2011 and 2012, despite his government's actual preference in favour of Eurobonds.[15] Consequently, even after the Commission officially called for the introduction of such bonds in a Green paper issued in November 2011[16], the European Council did not officially discuss it because of the Franco-German agreement to drop the proposal from the EU negotiation agenda.[17] For procedural reasons, the Council had to "take note" of the proposal on November 30th 2011, but did not engage in discussions on it.[18] The Eurobonds example thus corresponds nicely to our model.

Case Study 2 – Fiscal Compact

The Fiscal Compact is as much a 'success' of the Franco-German engine as the ESM treaty. It reinforces the EU's efforts to restore confidence in the sustainability of the Euro area by tightening fiscal and budgetary rules for the member states and entered into force on January 1st 2013.[19] The treaty obliges Euro area member states to enshrine a balanced budget or 'golden' rule into their respective national constitutions. Beyond that, it mainly transforms the secondary law reforms of the EU's stability and growth pact (SGP), subsumed under the labels of the 'Six-Pack' and the 'Two-Pack', into primary law. Because of the British government's veto threat, the rules laid down in the Fiscal Compact could not be incorporated into EU law, but were adopted in the form of an international treaty outside the EU treaties. Nevertheless, the Fiscal Compact endows the Commission and the European Court of Justice (ECJ) with certain tasks, turning it into a rather peculiar legal arrangement (cf. Dawson/de Witte 2013: 827).

As mentioned above, the Fiscal Compact is legally bound to the ESM through recital 5 of the ESM treaty. The Fiscal Compact is emblematic for the 'solidity' part of the EU's crisis response,

---

12 See <http://www.interlycees.lu/site/wp-content/uploads/2010/11/Juncker-Tremonti-bonds-Doc-InterLycees.pdf> (accessed 01.09.2017).

13 See <http://www.euractiv.de/section/finanzen-und-wirtschaft/news/euro-bonds-pro-und-contra-zu-gemeinsamen-anleihen/> (accessed 01.09.2017).

14 See <http://www.zeit.de/news-122010/10/iptc-bdt-20101210-465-27683710xml> (accessed 01.09.2017).

15 See <http://www.tagesspiegel.de/politik/treffen-von-merkel-und-sarkozy-euro-bonds-sind-offiziell-kein-thema/4501526.html> (accessed 01.09.2017).

16 See <https://euobserver.com/economic/114305> (accessed 01.09.2017).

17 Cf. the European Council Conclusions of 2010-2012, online at <http://www.consilium.europa.eu/en/european-council/conclusions/> (accessed 01.09.2017).

18 See <http://europa.eu/rapid/press-release_PRES-11-456_en.htm?locale=en> (accessed 01.09.2017).

19 At that time, it was only ratified by 16 EU member states. Yet, as of 01.04.2014 all 25 signatory states (all EU members except the United Kingdom, the Czech Republic, and Croatia) completed the ratification process. The treaty is now effective in all 19 Euro area countries and also in three non-Euro area countries that have chosen to opt in, namely Bulgaria, Denmark, and Romania. Sweden, Poland, and Hungary, by contrast, have ratified the treaty, but are not bound by it.

representing a concession to Germany for its acceptance of the permanent ESM in the sense of a 'quid pro quo' agreement. The Financial Times correspondingly called the adoption of the Fiscal Compact "a victory for Merkel".[20] Like the ESM, the Fiscal Compact can be traced back to the Deauville Declaration (cf. Tsebelis/Hahm 2014: 1396). Its institutional design largely resulted from intensive Franco-German cooperation. When the European Council formally decided to enter into the negotiations on the Fiscal Compact on December 8th and 9th 2011, it did so on the basis of a Franco-German proposal that President Sarkozy and Chancellor Merkel prepared a few days earlier, at a bilateral meeting on 05.12.2011.[21] This is strong evidence for the compromise logic outlined in our theoretical model.

And, indeed, intense Franco-German cooperation was necessary, because – as theoretically expected – the two countries' preferences diverged on important elements of the Fiscal Compact. Germany and France held opposing views on five of the nine most contested issues related to this treaty (see Table 2 in the online appendix). This includes the involvement of non-Euro members at Euro Summits (Germany in favour, France against) and the role of the Commission. In particular, Germany favoured the Commission to be the guardian of the treaty, while France aimed for monitoring competencies only. Yet, they also agreed on four contested issues from the start; for instance, both countries favoured greater tax coordination, or a limited role of the ECJ in the enforcement of the treaty.

In line with the second step of our theoretical model, France and Germany time and again put forward joint proposals for compromise solutions, which involved both the Fiscal Compact and the ESM (see above). Starting with the general Deauville compromise of October 18th 2010, the 'Merkozy' duo pushed for the adoption of the Six-Pack and Two-Pack in the Council of Ministers, and later proposed to constitutionalize these rules in the Fiscal compact in their joint proposal of December 2011 (cf. Krotz/Schild 2013: 207). They also managed to drop proposals from the EU negotiation agenda on the details of which they could not agree upon. Already in July 2010, for instance, a Franco-German agreement[22] put the German demand for an 'insolvency law' for Euro area members aside.[23] As theoretically expected, the two countries, indeed, acted as an inner negotiation circle for the whole EU. The two leaders met twice in just two months, namely on January 9th 2012 and on February 6th 2012, to reach an agreement on the most contested issues within the treaty. In the meantime, because of the high crisis pressure, no less than six successive draft versions of the treaty circulated among member states between December 9th 2011 (Krotz/Schild 2013: 277f) and march 2nd 2012[24], the day when member states signed the treaty (Tsebelis/Hahm 2014).[25] France secured some concessions from Germany, as the ultimately adopted treaty granted non-Euro area members only limited possibilities to be involved in Euro Summits, while the Commission's role was restricted to being endowed with monitoring capacities. The

---

20 See <https://www.ft.com/content/9068548a-4b68-11e1-b980-00144feabdc0?mhq5j=e1> (accessed 25.06.2017).

21 See <http://www.economist.com/blogs/charlemagne/2011/12/euro-crisis> and <http://www.euractiv.com/section/euro-finance/news/franco-german-stability-pact-a-coalition-of-the-willing-to-save-the-euro/> (accessed 25.06.2017).

22 See < https://uk.ambafrance.org/Franco-German-proposals-on> (accessed 01.09.2011).

23 FAZ, 22.07.2010, p. 9.

24 See <http://www.france-allemagne.fr/Die-deutsch-franzosischen,0586.html> (accessed 25.06.2017).

25 See <http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/127633.pdf> (accessed 25.06.2017).

adoption of the treaty outside EU law also mirrors the French ideal position, but not the German one. By contrast, but in line with our theoretical expectations, Germany and France faced severe problems with a proposal on which they displayed 'harmony' right from the start. For example, when the two governments jointly proposed to introduce a financial transaction tax (FTT) for the EU in September 2010, they immediately faced broad opposition from Euro area insiders and outsiders.[26] The official Commission proposal for such a tax of September 2011 consequently failed to reach a majority in the Council.[27] Later, a group of ten member states led by Germany and France tried to introduce the FTT through the "enhanced cooperation" procedure (Kroll/Leuffen 2014). Yet, whether the FTT will ever be introduced is still unclear at the time of writing of this paper.[28] This example thus corresponds well with Outcome II of our model.

In sum, the Fiscal Compact and the ESM treaty combine the general German push for stability-oriented fiscal prudence with the French demand for bold and vigorous crisis management through fiscal solidarity, i.e. redistribution. At the end both sides conceded to some demands of the other side. The adoption of both treaties in March 2012 resulted from intense Franco-German cooperation that corresponds to all three steps of our theoretical model. Proposals that did not become new EU policies were either dropped by the Franco-German couple (insolvency law for states), or were opposed by other EU members because they – due to Franco-German 'harmony' at the outset of the negotiations (FTT) - did not represent viable compromise solutions.

Case Study 3 – Banking Union

The Banking Union is another key element of the EU's response to the Euro Crisis. Yet, it only partially represents a 'success' of the Franco-German engine, as the analysis below reveals. The Banking Union comprises four elements geared to harmonize and strengthen financial market regulation and supervision in the Euro area: a single legal framework for banking supervision (the single rule book, SRB); 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).[29] While the first three elements have been negotiated, adopted and enacted between June 2012 and January 2016, the draft legislation on the EDIS is still pending at the time of writing of this paper (June 2017), because of lasting German opposition to it.[30]

Germany, unlike France, was also reluctant with regard to the other parts of the Banking Union, as the EMU|Choices data shows (cf. also Howarth/Quaglia 2013, 2016). The German government preferred a 'quality over speed' approach in the setting up of the SSM and aimed to restrict its scope to systemically important banks. Moreover, Germany but not France preferred to preserve the ultimate authority over the SRM by turning it into an intergovernmental (not supranational) institution, opposed the mutualisation of SRF contributions, and did not want to grant it ESM or state

[26] FAZ, 08.09.2010.

[27] See <https://ec.europa.eu/taxation_customs/taxation-financial-sector_de> (accessed 01.09.2017).

[28] See < https://www.bna.com/eu-financial-transactions-n73014461368/> (accessed 01.09.2017).

[29] See < http://www.europarl.europa.eu/atyourservice/en/displayFtu.html?ftuId=FTU_4.2.4.html > (accessed 25.06.2017).

[30] See < https://www.ft.com/content/20c3d05e-ae5f-37ea-a898-80a8c1367b65> (accessed 25.06.2017).

guarantees. In total, as depicted in Table 3 of the online appendix, Germany and France only agreed on 2 of the 9 most contested issues regarding the Banking Union, namely their willingness to introduce some form of legal restriction on bonuses for bankers, and the full harmonisation of capital buffer requirements for all Euro area banks. These findings fit the first step of our model well. Beyond that, the EMU|Choices data reveals that the two groups of member states that opposed each other in the prior negotiations on the ESM and the Fiscal Compact (and most of the other measures), remained the same in the Banking Union negotiations (cf. also Schimmelfennig 2015: 184).

Yet, while France and Germany once again were the “main players” (Howarth/Quaglia 2013: 111) in the EU level negotiations on the Banking Union from June 29th 2012[31] onwards, Franco-German cooperation during these negotiations was less intensive than in the prior ‘Merkozy’ years (Clift/Ryner 2014: 151, cf. Schild 2014). Most of the time, the governments of the newly elected French President François Hollande and the German Chancellor Merkel did not act as an inner negotiation circle on behalf of ‘their’ respective camps of Southern and Northern EU member states, despite their frequent bilateral meetings, including meetings ahead of European Councils. Germany generally favoured the status quo and objected major changes, while France was not willing to make concessions and aimed to realize its preferences through close coordination with other partners of its ‘camp’, notably Italy and Spain, instead.[32]

In the first months of Hollande’s Presidency, which coincided with the start of the Banking Union negotiations, the relationship between the French President and the German Chancellor was rather cool. In fact, Hollande had been highly critical of Chancellor Merkel in the French election campaign, and Merkel had openly supported Hollande’s opponent, the sitting President Sarkozy (Dinan 2013: 1). In this situation, intensive bilateral cooperation would have been domestically costly for both Merkel, who faced general elections in 2013, and even more so for Hollande, who promised “a fresh start for Europe” and a redirection from “austerity” to “growth and employment” on the eve of his election.[33] Consequently, other actors acted as agenda setters or tried to hammer out compromises. For instance, the interplay of the President of the European Council and the ECB was crucial to get and keep the Banking Union on the European agenda in June 2012 and afterwards (Nielsen/Smeets 2017: 6, 8ff). The Cypriote Council Presidency in turn presented a compromise proposal on the SSM ahead of the European Council meeting on 13/14.12.2012 (Kern 2014).

On May 30th 2013, Germany and France issued their first and last joint proposal related to the Banking Union.[34] This proposal yet remained silent on key issues on the negotiation table, particularly those associated with (re)distributional consequences. The absence of further Franco-German proposals for compromises in 2013 could be explained with the growing economic

---

[31] See <http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/131359.pdf> (accessed 25.06.2017).

[32] Cf. <http://www.spiegel.de/international/europe/germany-france-italy-and-spain-agree-to-growth-pact-a-840495.html> (accessed 01.09.2017).

[33] See <https://www.theguardian.com/world/2012/may/06/francois-hollande-angela-merkel-europe> (accessed 01.09.2017).

[34] See <https://www.bundesregierung.de/ContentArchiv/DE/Archiv17/_Anlagen/2013/05/2013-05-30-dt-frz-erklaerung-englisch.pdf;jsessionid=C709DD6F312CD79904C1275E82258FF9.s2t1?__blob=publicationFile&v=5> (accessed 25.06.2017).

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). In order to avoid concessions and the role of a German 'junior partner', President Hollande actively coordinated his government's positions with 'Southern' EU member states, particularly Italy and Spain. In doing so, he aimed to assume the role of a broker between 'Southern' and 'Northern' member states on its own (Schild 2013b: 15). Meanwhile, Germany sided with the Netherlands and Finland, and issued joint declarations with them (Nielsen/Smeets 2017: 12, 14).[35] We thus do not see the two sides 'delegating' negotiations to France and Germany. In result, the transaction costs for the other member state increased as the negotiations on the Banking Union were very technical and complex (Howarth/Quaglia 2016). Their willingness to accept these costs may be linked to the declining crisis pressure; only one month after the start of the negotiations in June 2012 (and two months after President Hollande's inauguration), ECB President Draghi's pledged to do "whatever it takes" to save the Euro.[36] This signal of the ECB's readiness to assume the role of a 'lender of last resort' for the Euro area reassured both markets and politicians across the EU (and the world), so that the adoption of the Banking Union became less urgent.

In sum, this case underlines that, as outlined in the theoretical discussion above, both France and Germany need to be willing and capable to cooperate in order to make the Franco-German engine work. Yet, as Germany and France did not value their cooperation in 2012 and 2013, because the change-oriented partner (in this case France) did not want to make concessions to the status quo-oriented partner (here Germany), and because intensive coordination with the other side risked to produce high audience costs in the respective domestic realms, the two countries tried to build coalitions with other members of their 'camp' in EU level negotiations instead.

VI. Conclusions: Why and How France and Germany Shaped EMU Reforms Between 2010 and 2014

In this paper, we analyse the role of the so-called 'Franco-German engine' in solving the Euro Crisis by reforming EMU. The Franco-German couple is oftentimes evoked for promoting European integration in general, and we here assess its impact in this particular policy area in the context of a severe crisis. We first introduce a stylized model of the 'Franco-German engine' that starts with the observation of regular dissent between these two countries. Germany and France then engage in policy coordination, which results in joint proposals for the subsequent EU level negotiations. In their bilateral negotiations, the two countries are considered as agents for different camps inside the EU for which they broker compromises that can find large majorities or even unanimity in the EU. By contrast, if France and Germany do not find common ground on a given proposal, they erase it from the EU negotiation table. We test our model with data from the EMU|Choices dataset as well as through a process tracing of key reform negotiations between 2010 and 2014.

Our analysis reveals that the Franco-German couple was indeed active during the Euro Crisis. There is rich evidence backing frequent interactions between politicians and administrations of these two countries in the period of investigation. As hypothesized in our model, dissent dominated early in the

[35] See <http://www.reuters.com/article/uk-eurozone-banks-finland-idUKBRE88O10820120925> (accessed 25.06.2017).

[36] See <https://www.ecb.europa.eu/press/key/date/2012/html/sp120726.en.html> (accessed 25.06.2017).

respective negotiations on the EU's responses to the Euro Crisis. However, over time the two countries generally – at least formally – agreed to support common positions. France successfully promoted the establishment of the ESM and the Banking Union *at all*. In return Germany was able to shape the conditions of the reform measures, including the ESM, the Fiscal Compact, and the Banking Union. Besides that, the two countries also managed to drop several proposal from the EU negotiation table, most notably the proposal for Eurobonds, but also e.g. the idea of an 'insolvency law' for Euro area members. Again in line with out expectations, the other member states dismissed joint proposals such as the Financial Transaction Tax, which were based on initial 'harmony' among the partners.

Yet, our case studies on the ESM, the Fiscal Compact, and the Banking Union also revealed that Franco-German cooperation was stronger under French President Sarkozy than under President Hollande, who came into office in May 2012. Particularly the negotiations on the Banking Union from June 2012 onwards underline that the Franco-German engine only works if both partners are willing to cooperate in order to achieve EU policy change. Beyond that, it is important to note that the Franco-German engine during the Euro crises generally refrained from acting in a pro-active manner. France and Germany rather reacted to the challenges imposed by the external shock of the crisis. In this respect, we cannot really speak of a high-revving engine but of one that was rather running at normal temperature (cf. Dinan/Nugent/Paterson 2017: 373). Yet, at the time of writing, after Emmanuel Macron's electoral successes, a refreshed joint desire of France and Germany becomes visible to rejuvenate Franco-German relations and European integration. It could well be that Pedersen (2003: 14) will once again be right with his claim that the "obituary of Franco-German collaboration has often been written prematurely".

Figures and Tables

Figure 1: Stylized model of the Franco-German engine

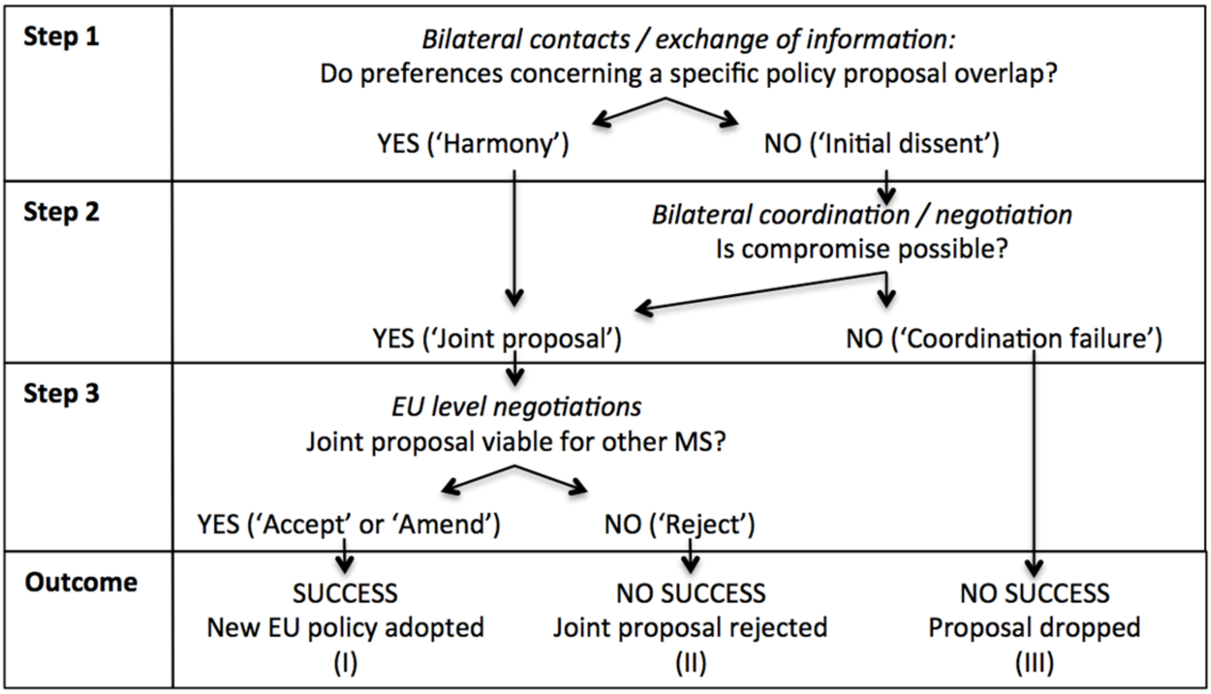


Table 1: Correlations and Average Distances of Selected Member States' Positions on 47 Contested Issues During the Euro Crisis

	FRA	DEU	ITA	GBR	NLD	POL	FIN	ESP	PRT	OUT
Correlation										
FRA	1,00	-0,40	0,64	-0,04	-0,47	0,10	-0,29	0,78	0,71	0,08
DEU		1,00	-0,18	-0,15	0,34	-0,07	0,35	-0,32	-0,34	0,03
ITA			1,00	-0,27	-0,57	0,09	-0,31	0,89	0,65	0,20
GBR				1,00	0,05	0,45	-0,05	-0,15	-0,07	0,47
NLD					1,00	0,25	0,90	-0,56	-0,47	0,01
POL						1,00	0,39	0,29	0,25	0,38
FIN							1,00	-0,32	-0,28	0,20
ESP								1,00	0,67	0,30
PRT									1,00	0,19
OUT										1,00

	FRA	DEU	ITA	GBR	NLD	POL	FIN	ESP	PRT	OUT
Av. Distances										
FRA	0,00	65,64	16,45	59,17	74,07	41,11	62,90	11,03	15,22	43,64
DEU		0,00	56,45	56,40	34,29	46,07	33,03	62,67	60,42	47,03
ITA			0,00	69,50	79,13	38,64	64,07	5,38	15,91	43,40
GBR				0,00	42,78	29,50	46,67	62,50	64,29	37,37
NLD					0,00	38,50	6,54	79,13	73,81	50,00
POL						0,00	30,43	35,91	33,33	29,55
FIN							0,00	66,07	63,64	40,00
ESP								0,00	15,91	36,25
PRT									0,00	44,44
OUT										0,00

Source: EMU|Choices CURR dataset, Version of 30.05.2017. Own depiction. Note: The darker the colors, the stronger the correlation in the upper table (blue = positive, red = negative correlation). In the lower table, blue cells signify very close distances, while white cells show big distances.

Online Appendix

Table 1: Preferences and Outcomes ESM

No.	Issue	Position France	Position Germany	Outcome
1	Changing EU treaties	0 = no treaty change	60 = treaty change that enables ESM and strengthens fiscal rules	20 = limited treaty change, only for ESM
2	Size of ESM	100 = expansive, bigger than 500 billion Euros	0 = restrictive, 500 billion Euros max.	0 = restrictive, 500 billion Euros max.
3	Conditionality	Missing in dataset	100 = tough conditionality, link to Fiscal Compact	100 = tough conditionality, link to Fiscal Compact
4	Private sector involvement	0 = voluntary (if at all)	100 = comprehensive and mandatory	20 = mandatory only in exceptional cases
5	Support instruments of ESM/EFSF	100 = wide scope, great flexibility	0 = narrow scope, limited flexibility (only loans to governments)	20 = narrow scope, but some flexibility (loans, recapitalisation of banks, and some further tools)
6	Financing of the ESM	100 = bank license	20 = MS guarantees, paid-in capital, fines	20 = MS guarantees, paid-in capital, fines
7	Role of supranational institutions in the ESM	0 = no role	40 = only in enforcement of programmes	40 = only in enforcement of programmes

Source: EMU|Choices CURR dataset, Version of 30.05.2017

Table 2: Preferences and Outcomes Fiscal Compact

No.	Issue	Position France	Position Germany	Outcome
1	Adoption of the fiscal compact	100 = yes	100 = yes	50 = adopt with opt-outs
2	Fiscal compact adopted by Treaty change	0 = intergovernmental agreement	100 = treaty change	0 = intergovernmental agreement
3	The legal form of the debt brake	50 = binding provisions, not necessarily constitutional	100 = constitutional level	50= binding provisions, not necessarily constitutional
4	The role of the ECJ in Fiscal compact	0 = Power limited to the question of non-compliance with the 'golden rule' transposition	0 = Power limited to the question of non-compliance with the 'golden rule' transposition	0 = Power limited to the question of non-compliance with the 'golden rule' transposition
5	The role of the Commission in Fiscal compact	0 = Monitoring competences without possibility to take member states to court	100 = Commission can bring infringement cases in front of the ECJ	0 = Monitoring competences without possibility to take member states to court
6	The participation of non-euro members at the Euro Summit	0 = no	100 = yes	50 = limited access
7	The purpose of the fiscal compact	100 = Growth is the prerequisite to budgetary stability	0 = Stability is prerequisite to economic growth	0 = Stability is prerequisite to economic growth
8	Tax policy coordination	100 = In favor of greater fiscal coordination.	100 = In favor of greater fiscal coordination.	0 = no to coordination
9	Incorporation to EU Treaties	100 = within the next five years	100 = within the next five years	100 = within the next five years

Source: EMU|Choices CURR dataset, Version of 30.05.2017

Table 3: Preferences and Outcomes Banking Union

No.	Issue	Position France	Position Germany	Outcome
1	EU cap on bank bonuses: legal v. shareholder-approved	100 = Some form of legal restriction on bonuses is needed	100 = Some form of legal restriction on bonuses is needed.	100 = Some form of legal restriction on bonuses is needed.
2	Capital buffers: centralization vs. flexibility	100 = Centralization at the supranational level (maximum harmonisation)	100 = Centralization at the supranational level (maximum harmonisation).	50 = (label missing in dataset)
3	Scope of the SSM: all banks vs. some banks	100 = All EZ banks supervised directly by ECB	0 = Only systemically important banks	70 = All banks covered by the SSM, but only some 160 largest banks are supervised directly by ECB
4	Double majority for EBA's decisions	100 = Opposes additional protection mechanisms for non-participating member states	0 = Supports some additional protection mechanisms such as the double majority for some decisions of EBA or a vote in ECB's decision on banking supervision	0 = Supports some additional protection mechanisms such as the double majority for some decisions of EBA or a vote in ECB's decision on banking supervision
5	Institutional responsibility for SSM at ECB	100 = Supports assigning the ultimate institutional responsibility for SSM to the ECB Governing Council	0 = Supports locating the ultimate institutional responsibility for SSM outside of the ECB	100 = Supports assigning the ultimate institutional responsibility for SSM to the ECB Governing Council
6	SSM deadlines: speed versus quality	100 = Supports quick adoption of the SSM by the end of 2012 and its implementation from 2013.	0 = Prefers to avoid tight deadlines in order to provide time for agreement on crisis legacies and to ensure sound institutional and legal basis of the SSM;	50 = (label missing in the dataset)
7	SRM: decision-making powers	100 = resolution authority ultimately centralized in the hands of the Commission.	0 = resolution authority ultimately controlled by member states (via European Banking Authority or new resolution body	70 = (label missing in the dataset)

			composed of MS representatives and with some intervention option for the Council);	
8	SRF build-up and mutualization	80 = centralized SRF created by gradual mutualization of national resolution funds over the period of 8 to 10 years (which corresponds to their build up from bank levies)	0 = networks of national resolution funds without mutualization in foreseeable future	80 = centralized SRF created by gradual mutualization of national resolution funds over the period of 8 to 10 years (which corresponds to their build up from bank levies)
9	SRF fiscal backstop	100 = allowing either a direct ESM funding for bank recapitalization or indirect one through an provides explicit ESM backstop to the SRF	0 = allowing the SRF to borrow during against expected bank contributions, but without any explicit ESM or state guarantees	0 = allowing the SRF to borrow during against expected bank contributions, but without any explicit ESM or state guarantees

Source: EMU|Choices CURR dataset, Version of 30.05.2017

Bibliography

Bachrach, Peter, Morton S. Baratz, 1962: Two Faces of Power. *The American Political Science Review* 56(4), 947-952.

Beach, Derek, Rasmus B. Pedersen, 2013: *Process-Tracing Methods. Foundations and Guidelines.* Ann Arbor: University of Michigan Press.

Brunnermeier, Markus K., Harold James, Jean-Pierre Landau, 2016: *The Euro and the Battle of Ideas.* Princeton/Oxford: Princeton University Press.

Bulmer, Simon J., 2014: Germany and the Eurozone Crisis: Between Hegemony and Domestic Politics. *West European Politics* 37(6), 1244-1263.

Clift, Ben, Magnus Ryner, 2014: Joined at the hip, but pulling apart? Franco-German relations, the Eurozone crisis and the politics of austerity. *French Politics* 12(2), 136-163.

Crespy, Amandine, Vivien A. Schmidt, 2014: The clash of Titans: France, Germany, and the discursive double game of EMU reform. *Journal of European Public Policy* 21(8), 1085-1101.

Dawson, Mark, Floris de Witte, 2013: Constitutional Balance in the EU after the Euro-Crisis. *The Modern Law Review* 76(5), 817-844.

Degner, Hanno, 2016: European Integration in Response to the 'Euro Crisis' 2010-2013. In: Saurugger, Sabine, Fabien Terpan (eds.): *Crisis and Institutional Change in Regional Integration.* London: Routledge, 23-40.

Degner, Hanno, 2018: Public Attention, Governmental Bargaining, and Supranational Activism: Explaining European Integration in Response to Crises. *Journal of Common Market Studies* 56(forthcoming), 1-20.

Dinan, Desmond, 2013: EU Governance and Institutions: Stresses Above and Below the Waterline. *Journal of Common Market Studies* 51(Annual Review), 1-14.

Dinan, Desmond, Neill Nugent, William E. Paterson, 2017: Conclusions: Crisis Without End? In: Dinan, Desmond, Neill Nugent, William E. Paterson (eds.): *The European Union in Crisis.* Houndmills: Palgrave Macmillan, 360-375.

Fabbrini, Sergio, 2015: *Which European Union? Europe after the Euro Crisis.* Cambridge: Cambridge University Press.

Fearon, James D., 1995: Rationalist explanations for war. *International Organization* 49(3), 379-414.

Gerring, John, 2007: *Case Study Research. Principles and Practices.* Cambridge: Cambridge University Press.

Hall, Peter A., 2012: The Economics and Politics of the Euro Crisis. *German Politics* 21(4), 355-371.

Hix, Simon, 2007: The European Union as a Polity (I). In: Jørgensen, Knud E., Mark A. Pollack, Ben Rosamond (eds.): *The SAGE Handbook of European Union Politics.* London: Sage, 141-158.

Howarth, David J., Lucia Quaglia, 2013: Banking Union as Holy Grail: Rebuilding the Single Market in Financial Services, Stabilizing Europe's Banks and 'Completing' Economic and Monetary Union. *Journal of Common Market Studies* 51(Annual Review), 103-123.

Howarth, David J., Lucia Quaglia, 2016: *The Political Economy of the Banking Union.* Oxford: Oxford University Press.

James, Harold, 2012: *Making the European Monetary Union.* Cambridge, MA: Harvard University Press.

Keohane, Robert O., 1984: *After Hegemony: Cooperation and Discord in the World Political Economy.* Princeton: Princeton University Press.

Kern, Alexander, 2014: The ECB and Banking Supervision: Building Effective Prudential Supervision? *Yearbook of European Law* 33(1), 417-432.

Kingdon, John W., 2003[1984]: *Agendas, Alternatives, And Public Policies. Second Edition.* New York: Longman.

Kroll, Daniela A., Dirk Leuffen, 2014: Enhanced cooperation in practice. An analysis of differentiated integration in EU secondary law. *Journal of European Public Policy* 22(3), 353-373.

Krotz, Ulrich, Joachim Schild, 2013: *Shaping Europe: France, Germany, and Embedded Bilateralism from the Elysée Treaty to Twenty-First Century Politics.* Oxford: Oxford University Press.

Leuffen, Dirk, Hanno Degner, Kerstin Radtke, 2012: Which mechanics drive the 'Franco-German Engine'? An Analysis of How and Why France and Germany Have Managed to Shape Much of Today's EU. *L'Europe en formation* 53(4), 47-83.

Lewis, Jeffrey, 2010: How Institutional Environments Facilitate Co-operative Negotiation Styles in EU Decision-making. *Journal of European Public Policy* 17(5), 648 - 664.

Lorentzen, Peter, M. Taylor Fravel, Jack Paine, 2017: Qualitative investigation of theoretical models: the value of process tracing. *The Journal of Theoretical Politics* 29(3), 467-491.

Lundgren, Magnus, Stefanie Bailer, Jonas Tallberg, Silvana Tarlea, 2017: *Bargaining Power in the Reform of the Eurozone.* Paper presented at the EMU|Choices Mid-term Conference, Rome, 6-7 July 2017.

Mattila, Mikko, 2009: Roll call analysis of voting in the European Union Council of Ministers after the 2004 enlargement. *European Journal of Political Research* 48(6), 840-857.

Mazzucelli, Colette, 1997: *France and Germany at Maastricht.* London: Garland.

Miller, Gary J., 2005: The Political Evolution of Principal-Agent Models. *Annual Review of Political Science* 8203-225.

Moravcsik, Andrew, 1993: Preferences and Power in the European Community: A Liberal Intergovernmentalist Approach. *Journal of Common Market Studies* 31(4), 473-524.

Naurin, Daniel, Rutger Lindahl, 2008: East-North-South: Coalition-Building in the Council before and after Enlargement. In: Naurin, Daniel, Helen Wallace (eds.): *Unveiling the Council of the European Union. Games Governments Play in Brussels.* Basingstoke: Palgrave Macmillan, 64-78.

Nielsen, Bodil, Sandrino Smeets, 2017: The role of EU institutions in establishing the banking union. Collaborative leadership in the EMU reform process. *Journal of European Public Policy* 24(OnlineFirst), 1-24.

Paterson, William E., 2009: Did France and Germany Lead Europe? A Retrospect. In: Hayward, Jack (ed.) *Leaderless Europe.* Oxford: Oxford University Press, 89-110.

Pedersen, Thomas, 2003: Keynote Article: Recent Trends in the Franco-German Relationship. *JCMS: Journal of Common Market Studies* 41(S1), 13-25.

Peterson, John, Elizabeth Bomberg, 1999: *Decision-Making in the European Union.* Houndmills: Macmillan Press.

Scharpf, Fritz W., 1997: *Games Real Actors Play. Actor-Centered Institutionalism in Policy Research.* Boulder: Westview.

Schild, Joachim, 2010: Mission Impossible? The Potential for Franco-German Leadershio in the Enlarged EU. *Journal of Common Market Studies* 48(5), 1367-1390.

Schild, Joachim, 2013a: Leadership in Hard Times. Germany, France, and the Management of the Eurozone Crisis. *German Politics and Society* 31(1), 24-47.

Schild, Joachim, 2013b: Politischer Führungsanspruch auf schwindender Machtbasis: Frankreichs Europapolitik unter François Hollande. *integration* 22(1), 1-14.

Schild, Joachim, 2014: *Leading together or opposing each other? Germany, France and the European banking union.* Paper presented at the 14th Biennial EUSA Conference, 5-7 March 2015, Boston, USA.

Schimmelfennig, Frank, 2015: Liberal intergovernmentalism and the euro area crisis. *Journal of European Public Policy* 22(2), 177-195.

Selck, Torsten J., Michael Kaeding, 2004: Divergent Interests and Different Success Rates: France, Germany, Italy and the United Kingdom in EU Legislative Negotiations. *French Politics* (2), 81-95.

Tallberg, Jonas, 2008: Bargaining Power in the European Council. *Journal of Common Market Studies* 46(3), 685-708.

Thomson, Robert, 2009: Actor alignments in the European Union before and after enlargement. *European Journal of Political Research* 48(6), 756-781.

Thurner, Paul W., Franz Urban Pappi, Michael Stoiber, 2002: *EU intergovernmental conferences. A quantitative analytical reconstruction and data-handbook of domestic preference formation,* *transnational networks and dynamics of compromise during the Amsterdam Treaty negotiations.* Arbeitspapiere / Mannheimer Zentrum für Europäische Sozialforschung 60. Mannheim: Mannheimer Zentrum für Europäische Sozialforschung.

Tsebelis, George, Hyeonho Hahm, 2014: Suspending vetoes: how the euro countries achieved unanimity in the fiscal compact. *Journal of European Public Policy* 21(10), 1388-1411.

Wasserfallen, Fabio, Thomas Lehner, 2017: *Mapping Contestation on Fiscal and Economic Integration: Evidence from New Data.* Paper presented at the EUSA Biannual Convention, Miami, USA, 4-6 May 2017.

Webber, Douglas, 1999: Introduction. In: Webber, Douglas (ed.) *The Franco-German Relationship in the European Union.* London: Routledge, 1-20.

Wood, Pia Christina, 1995: The Franco-German Relationship in the Post-Maastricht Era. In: Rhodes, Carolyn, Sonia Mazey (eds.): *The State of the European Union. Vol. 3: Building a European Polity?* Boulder, CO: Lynne Rienner, 221-243.

EMU CHOICES

THE CHOICE FOR EUROPE SINCE MAASTRICHT
SALZBURG CENTRE OF EUROPEAN UNION STUDIES

This project has received funding from the European Union's Horizon 2020
research and innovation programme under grant agreement No. 649532