

# The Franco-German Alliance

## Can it continue to serve as a motor for Europe?

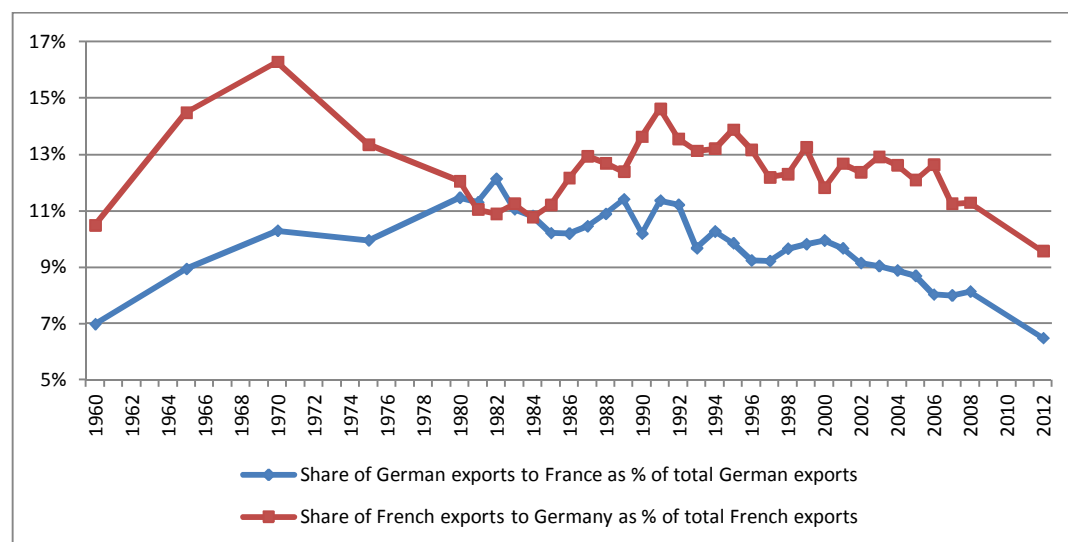
Daniel Gros

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Fifty years ago, the Elysée Treaty created a framework for structured cooperation between France and Germany, which has served both countries well and has often constituted an indispensable motor for European integration. Any political innovation that endures for half a century must have a sound basis.

What was this basis? It must have been mainly political since the importance of the bilateral economic relations should not be overestimated: both were usually the biggest trade partner of the other, but Germany took only 10% of French exports fifty years ago. After some ups and downs, however, this is about same percentage today. France was usually the largest export market for Germany, but here again this was relative: in 1963, only about 7% of German exports went to France. This percentage increased to almost 12% during the 1970s, but has since fallen back to somewhat below the 1963 value. The rest of the world has thus become more important for Germany recently, but the relative importance of France as a trading partner is today about the same as it was half a century ago. This relative stability of the bilateral trade shares is actually a testament to the integration that has taken place in Europe because both Europe and the world outside Europe have grown so much. As the world economy grows, one would expect bilateral trade to become less important. But this has not been the case, at least so far.

Figure 1. Bilateral trade as share of total trade



Sources: IMF, Ameco, Statistisches Bundesamt (Destatis).

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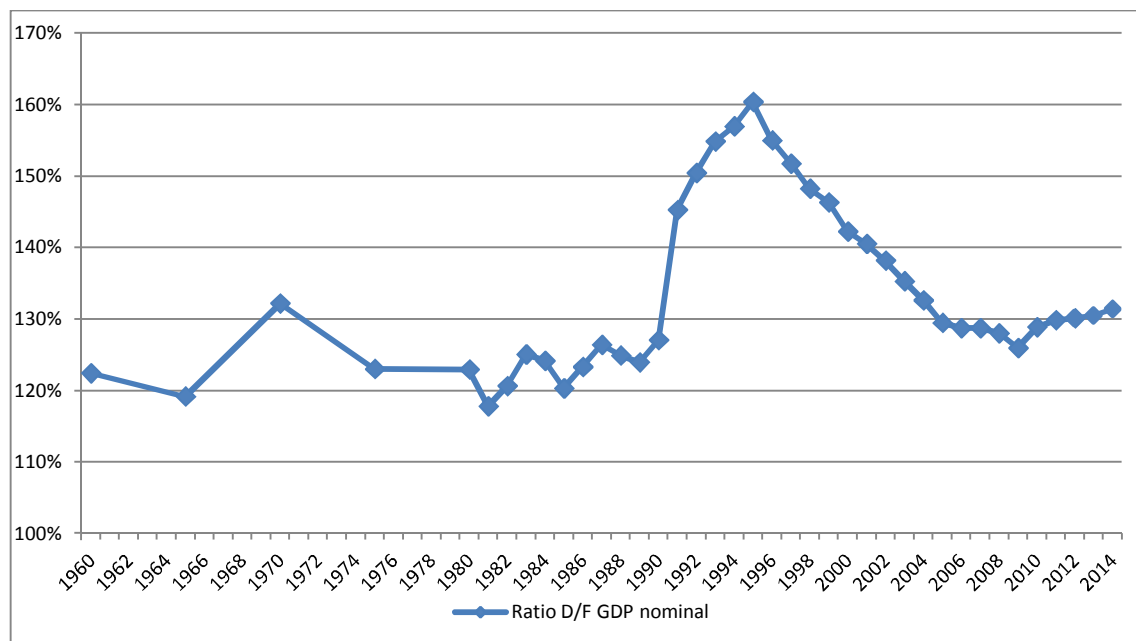
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In absolute terms, bilateral relations have actually become more important since in 1963 both economies were much less open. The 7% of total German exports going to France then amounted to only less than 1.5% of German GDP, but the 6.5% of total German exports going to France today amount to close to 3% of German GDP. In this sense, bilateral trade has almost doubled in importance.

In the long run it appears that French citizens drew more advantages from economic integration over this period. In 1963 GDP per capita at PPP was about 30% higher in Germany, but the distance narrowed over the next ten years. Unification brought great changes (Germany's GDP per capita initially fell) allowing France to actually achieve, for a fleeting moment, parity with Germany in terms of GDP per capita. But over the last years Germany's income per has been growing faster reaching again 115% of the French level, not far from the relative value of 1963.

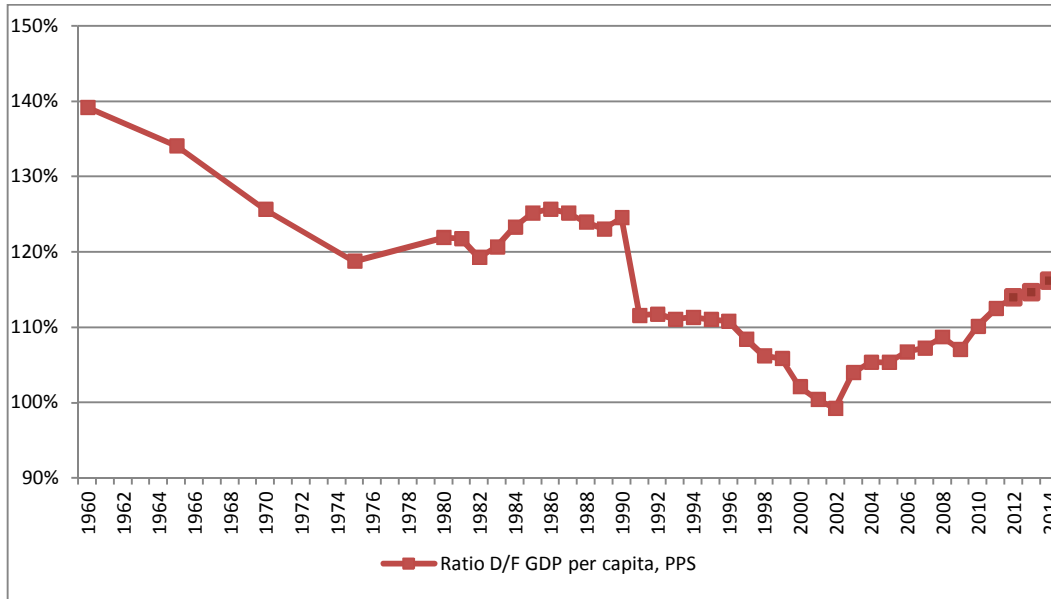
Unification also brought many short-term changes in terms of the overall size of the two economies. But in the end there has been even less change. In 1963 Germany's GDP was about 20% larger than that of France; today the difference in size is not much greater although the German population has increased by about one-quarter as a result of unification. Stronger French growth (on average over the last half century) has offset much of that. Over the longer term, the relative size of the French economy might actually increase again as the French population keeps growing whereas that of Germany will stagnate at best if immigration offsets the natural population decline due to a record-low birth rate. On this count the two economies should thus remain of comparable size.

Figure 2. Ratio of Germany/France for nominal GDP



Source: European Commission.

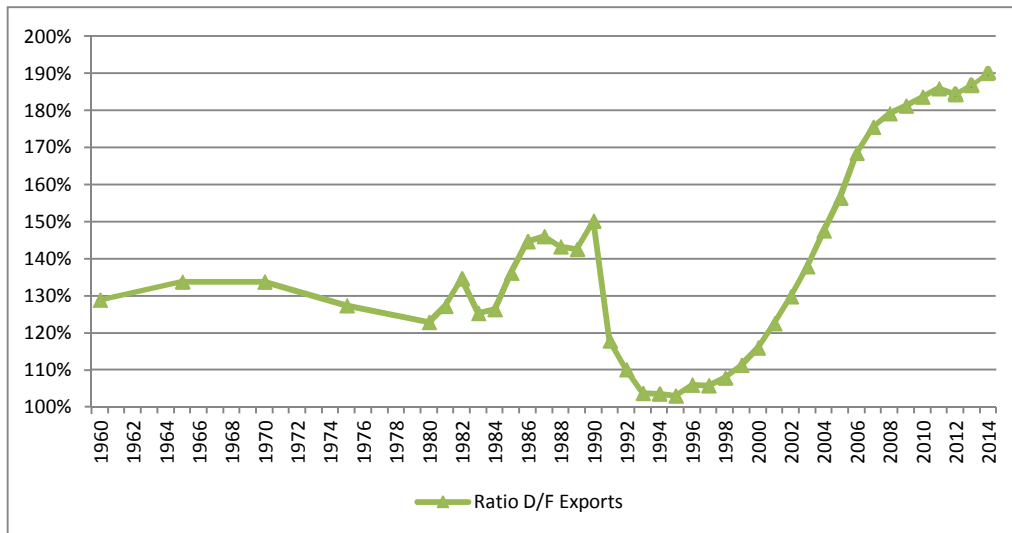
Figure 3. Ratio of Germany/France for real GDP per capita



Source: European Commission.

There is one area, however, where the relative weight of these two countries has moved greatly over time, namely their performance in global markets. Fifty years ago, Germany's exports used to be about 30% higher than those of France; they are 90% higher today.

Figure 4. Ratio of German exports over French exports



Source: European Commission.

What has not changed much is that in every major global economic crisis there is pressure on Germany to reflate and stop running current account surpluses. This was already the case 50 years ago and remains true today. Although the importance of Germany in the global economy is much smaller now, its current account surplus is still the largest in the world, somewhat larger even than that of China and double that of Japan. However, the German current account is much less important on its own today because it has been 'fused' inside the euro area with the deficit of France so that the global political pressure on Germany to reflate is much reduced.

The Franco-German alliance was not founded on economic grounds given that the bilateral economic ties were of marginal importance to both. However, it presupposes that the two partners are of comparable economic strength. In terms of the overall domestic size of the two economies, the relative weights have not changed much over time, but the external differences have grown and must now be managed carefully within the euro area.

The enduring key role of the two countries in Europe no longer depends on their dominant size. In 1963, the economies of France and Germany accounted for almost two-thirds of the six founding members of the European Union. Today the two together account for little over one-third of the EU27. They cannot dominate, but they can perform a central role, especially if they disagree on a key issue. Each side can then usually represent the point of view of a group of other member states. If France and Germany can then find a useful compromise, the other countries will accept this compromise as well. This is why 'Merkozy' could not work. When France automatically takes the same position as Germany, many other member countries will feel that their interests are being neglected.

At present again, France represents the interests of a group of countries that are asking for more solidarity, whereas Germany represents not only its own interests, but also the point of view of other countries that are asking for adjustment. A Franco-German compromise will thus again be able to represent a central point of reference for an agreement that can be accepted by everybody.

Will the Elysée Treaty be useful for another 50 years?

The two countries used to be important global economies, each in its own right. Today their economies produce only 2.4% in the case of France and 3.4% in the case of Germany of global GDP at PPP, with the trend pointing towards further decline. They are on the way to becoming irrelevant at the global scale and confront an immense new challenge. The two countries must now abandon the pretence of performing an independent role at the global scale and accept the inevitable: To accept that European institutions represent Europe as a whole on the global scene. This concerns the realm of economics as well as politics. So far the two countries have conspired to block meaningful progress in both areas. There is no representation of the euro area at the IMF and the uncoordinated way in which France and Germany stumbled into the civil war in Mali does not bode well for the European External Action Service becoming an effective common institution.

It is appropriate to celebrate a bilateral relationship that has been so beneficial for Europe as well. But the challenge for the future is to turn their eyes outward and recognise that the points of view of France and Germany will matter only if they accept to pool even more sovereignty in Europe.