

# Merkel's Brexit Problem

*For Germany, the stakes are high.*

BY KLAUS C. ENGELEN

**A**lready facing an immigration and European integration crisis that is shattering the country's democratic foundations in the postwar era as never before, another nightmare looms on the horizon for Germany's political and business elite: the prospect of Britain leaving the European Union.

This explains why an embattled German Chancellor Angela Merkel—fully aware of the enormous political, economic, and geopolitical stakes—has put Berlin's preparations for the “Brexit-battle” as high as possible on her priority list.

My former colleague Thomas Kielinger expressed the forebodings of many Germans in his column for *The Telegraph*: “Britain, don't leave us. We Germans need you in the EU—and we'll bend over backwards to keep you,” he wrote in December 2015. “For Angela Merkel to lose the British on her watch would be a disaster for a country which has so long regarded it as an indispensable part of Europe.” And he continues: “Looked at from Germany, a British EU-exodus would be a catastrophe robbing us of a brother in arms for free trade and reforms; a valuable co-combatant, too, for the survival of liberalism.”

But some Germans think—as *Der Spiegel* argued in an editorial recently—enough is enough. “Europe has taken British sensitivities and particularities into account for long enough. The European Union has allowed itself to be blackmailed and made to look like a fool time and again. It was patient to the point of self denial. For decades England was forgiven for every veto it cast; every special wish was granted.”

---

*Klaus C. Engelen is a contributing editor for both Handelsblatt and TIE.*

THE INTERNATIONAL  
ECONOMY

THE MAGAZINE OF INTERNATIONAL  
ECONOMIC POLICY

220 I Street, N.E., Suite 200

Washington, D.C. 20002

Phone: 202-861-0791

Fax: 202-861-0790

[www.international-economy.com](http://www.international-economy.com)

[editor@international-economy.com](mailto:editor@international-economy.com)

## CAMERON GETS HIS REFERENDUM

After British Prime Minister David Cameron won most of his renegotiation demands at the make-or-break “Brexit” summit in Brussels in February 2016, a day later he scheduled the United Kingdom’s EU membership referendum to take place on June 23, 2016.

It will be the second time the British electorate has been asked to vote on the issue of European membership. The first vote was held in 1975, when 67 percent of British voters approved of EEC membership.

Cameron went into the Brexit negotiations with several demands. He wanted explicit recognition that the euro is not the only currency of the European Union. He also wanted safeguards against having to contribute to eurozone bailouts. He wanted a target set for reducing the burden of excessive regulation and extending the single market. In terms of immigration, Cameron sought to stop those coming to the United Kingdom from claiming certain benefits until they have completed four years of residence. And finally, Cameron wanted to allow Britain to opt out from further political integration and give national parliaments greater powers to block EU legislation.

According to *The Guardian*, Cameron got the following deal:

- A seven-year term for the emergency brake to restrict EU migrants in the United Kingdom from claiming in-work benefits.

- Child benefit payments indexed to the cost of living for children living outside the United Kingdom for all new arrivals to the United Kingdom, extending to all workers from January 1, 2020.

- Any single non-eurozone country able to force a debate among EU leaders about “problem” eurozone laws—though they will not have a veto.

- An unequivocal opt-out stating that EU treaty “references to ever-closer union do not apply to the United Kingdom.”

*The Guardian* concludes: “Cameron claimed victory and pledged to campaign with ‘all my heart and soul’ to keep Britain inside the EU after a deal was struck on Friday evening to redraw the terms of the UK’s membership.”

In the escalating Brexit battle, the British prime minister and his supporters will need all the help—home and abroad—they can get.

British voters should not ignore that European business leaders—represented through twenty-one business federations, speaking on behalf of over 2.5 million businesses, employing fifty million people—back reforms that make the European Union more competitive and support the United Kingdom’s

continued membership in a reformed European Union, considering the dependence of many UK businesses and jobs on a global world economy.

The results of an *Economist* Intelligence Unit survey on the Brexit question announced on February 15 point in the same direction. A four-fifths majority of British and German business representatives are against Brexit. In case a Brexit happens, decreases are predicted in rev-

---

*Germany would be forced to plug most of the financing gap should the European Union lose its second-largest net contributor to the Union’s budget.*

---

enues, investments, and jobs. Nearly a third of businesses would either decrease or relocate capacities away from the United Kingdom.

“A Brexit would lead to a dead end,” warns Markus Kerber, director of the Federation of German Industries (BDI). “Only a unified Europe will be successful on the global scene. A divided Europe will sink into oblivion. In

## Another Nightmare

As troubleshooter during the sovereign debt crisis and as key architect in the yearlong effort to establish stronger institutional structures for a three-pillar European banking union, Berlin’s finance minister Wolfgang Schäuble now faces another challenge: to convince Brits to stay in the European Union.

—K. Engelen



**Wolfgang Schäuble**



UK Prime Minister **David Cameron** meets with German Chancellor **Angela Merkel** at his Downing Street flat after her address to Parliament on February 27, 2014. Merkel admires Cameron as a speaker—but certainly not as a tactician.

2050, not a single European country will remain among the nine biggest economies in the world.”

Such lofty backing from the halls of German industry does not prevent some German journalists from putting big question marks behind the British premier’s risky Brexit referendum project.

Some German commentators were not impressed. Stefan Kornelius, foreign editor of *Süddeutsche Zeitung*, said, “The prime minister wants reforms, but they are not really to be taken seriously. Cameron’s need for change is for the purpose of political self-preservation.” According to the German weekly *Der Spiegel*, “It was the Cameron show we expected. With numerous crises facing the EU at the moment, it was in no one’s interest that the Brits leave the union and weaken it further.” And Nikolaus Blome, commenting in *Bild*, said, “Luckily, both the EU commission and other leaders eventually realized that while the Brits would damage themselves with a Brexit, the EU would practically be destroyed with it. That’s a change from a year ago, when the impression was that the Brits were ‘only’ threatening us with their own suicide.”

#### GERMANY’S EFFORT AS MEDIATOR

As Daniela Schwarzer of the German Marshall Fund argued in May 2015, “Ever since British Prime Minister David Cameron announced in January 2013 that he would hold a referendum on a renegotiated British EU membership agreement, Berlin has been a top destination for British policymakers and diplomats intent on exploring what renegotiated membership might look like... The good news for London is that the German government has a strong interest in keeping the UK in the EU, especially for economic reasons.”

When *The Guardian* asked five European journalists “to sum up the public mood towards the possible ‘Brexit’” in May 2015, Stefan Kornelius responded. He made the observation, “Over the past two years, no meeting between Merkel and the British prime minister went by without the pair discussing EU reform—and German resistance to it. Merkel wants to keep Britain in the EU. She has made no secret of this. She belongs to the German group of politicians that tend towards anglophilia, not francophilia. She respects the British political system, admires the system of parliamentary debate, and values the calmness with which the democratic system has always operated.” And he continues: “Merkel cannot understand how through the last UK parliament Cameron let himself be pushed into ever deeper commitments on Europe by the anti-Europe faction in his party, only to find that his opponents would raise the bar still further. She admires Cameron as a speaker—but certainly not as a tactician.” And last, “Her political message to Cameron is: pull out, and your country will find its position in the world reduced. But below the surface, [Merkel] is equal-

---

### *Another nightmare looms on the horizon for Germany’s political and business elite.*

---

ly worried about the balance in Europe where Britain is often seen as a German ally in matters that pit the north against the south.”

In the long diplomatic consultations that preceded the EU Brexit summit negotiations, German government officials—alarmed at the possibility of Britain leaving the European Union—tried to help Cameron to obtain an agreement that would allow him to run a successful campaign, according to insiders. Merkel’s government set up a Berlin-based Brexit task force to work on the proposed reforms, led by Klaus Zillikens, an experienced diplomat, as Tara Palmeri reported in *Politico*.

Germany, in effect, positioned itself as a compromise broker between Britain and other EU countries in an effort to avoid a Brexit.

Merkel tasked key European Parliament members of her party such as David McAllister to engage with the

*Continued on page 71*

*Continued from page 38*

British Conservatives in preparation for the Brexit summit. MEP Manfred Weber, who chairs the conservative bloc in the European Parliament, was also asked to help. “Germans are very active in diplomacy in London,” confirmed Chris Heaton-Harris, the British MP who heads the Fresh Start Project, a group looking

---

*The European Union has  
allowed itself to be blackmailed  
and made to look like a fool.*

---

at how the British relationship with the European Union could be changed.

However, one of Merkel’s Brussels party veterans, Elmar Brok, chairman of the European Parliament’s foreign affairs committee, took a harder negotiation stance, according to Palmeri’s report in *Politico*. “Germany wants to keep them [the British] in the European Union, under the conditions of the EU, and not at any expense. Germany is only part of the game. There are twenty-eight countries. They should not believe that Germany will give up the European beliefs and principles.”

This early diplomatic consulting work on the Brexit challenge, however, is a strong reflection of the broad German consensus that Great Britain remaining in the Union is very much in Germany’s national interest. In her speech before both Houses of Parliament on February 27, 2014, in London that was earlier quoted, Chancellor Merkel said, “Germany and Great Britain both aim for a strong, competitive European Union. Together and



*German Finance Minister Wolfgang Schäuble finds Henry Kissinger’s statement that Germany is “too big for Europe and too small for the world” not helpful.*

determined we can make our values and interests relevant to the modern world. To reach this aim we need a strong United Kingdom with a strong voice within the European Union. That way we achieve the necessary changes—for the good of all.”

As it turned out, in the critical stages of the Brexit summit negotiations, Merkel gave Cameron a helping hand when one of the most controversial issues was on the table. To the anger of the eastern European leaders, she let it be known that Germany might also introduce a scheme negotiated by Cameron to restrict migrant benefits.

### SCHÄUBLE EXPLAINS GERMANY’S STAKE

Wolfgang Schäuble showed up in London only a few days after the Brexit summit. As troubleshooter during the sovereign debt crisis and as key architect in the year-long effort to establish stronger institutional structures for a three-pillar European banking union, Berlin’s finance minister now faces another challenge: to convince Brits to stay in the European Union.

On March 3, he made himself available for a question-and-answer session at the 2016 British Chambers of Commerce conference under the darkening clouds of the escalating Brexit battle.

When exploring the question of how Germany, the largest member country and strongest supporter of the United Kingdom’s role in the European Union, is coping with the alarming prospect of the British leaving the European Union, the following episode—reported by Rainer Buerger of Bloomberg—reveals the drama that is unfolding these days.

“Schäuble wore his European heart on his sleeve during a visit to London. . . . Asked what Germany would do if the United Kingdom voted to quit the EU in the June 23 referendum, Schäuble said: ‘Phhh, we would cry,’ breaking into a laugh and drawing into applause from the audience. ‘But I hope we will not. Look, it’s a decision of the British people, of course.’”

Schäuble, 73, who has been a member of the German Parliament since 1972 and served as minister under many coalition governments, who helped negotiate German unification and had a key role when the euro was devised, is now Angela Merkel’s most influential minister. The *Wall Street Journal* called him “Germany’s second most powerful person after Chancellor Merkel.”

In major speeches, Schäuble put the official German view on the Brexit controversy to other British audiences.

On the same day that he appeared before the British Chambers of Commerce, he gave a lecture on “Managing Europe—What Is Germany’s Responsibility?” to the LSE European Institute. There, he made the point that

Germany's responsibility in Europe "is not completely different from the responsibility that other European countries have: namely to foster the positive and successful development of both Europe and the world." He strongly rejected the use of concepts such as "dominance" or "hegemony" or even "semi-hegemony" since

---

*A four-fifths majority of British  
and German business representatives  
are against Brexit.*

---

"these are not plausible categories for decision-makers in Europe today. ... they don't fit with the German government's actual experience. Hegemony, or leadership by a single country—that doesn't work in Europe. That's another lesson that history has taught us over and over again."

And "with all due respect," Schäuble finds Henry Kissinger's statement that Germany is "too big for Europe and too small for the world" not helpful because "each nation state on its own is too small for this world." The European Union, reminds Schäuble, "is made of twenty-eight countries with equal rights. This isn't an empty phrase. This is reality."

To understand Germany's responsibility, Schäuble argued, "It is no longer absolutely necessary to draw a connection to the crimes that were committed by the Nazi regime. On the other hand, of course important lessons were drawn from the years leading up to 1945. Germany's commitment to the West, and our commitment to the path of European integration, is one of these essential lessons. In any case, that's a conclusion that many European countries have drawn from history."

Since the fall of the Iron Curtain in 1989 and Germany's reunification and the crises in and near Europe, "Germany has found itself playing a new management role as well," admits Schäuble. "Expectations are now directed towards Germany—expectations that surprised us first and that we weren't too happy about: After all, since 1945, we didn't really want to be bothered by questions of power or responsibility."

Addressing the Official Monetary and Financial Institutions Forum, Schäuble's key message was that "Europe needs Great Britain, so that the European

Union sticks to its liberal roots and the Commission to its role as problem-solver, not problem-maker. ... We need a British Europe and European Great Britain. But rest assured, in the twenty-first century Great Britain's relationship with Europe will still remain 'special'. But it should be defined not by 'splendid isolation' but by 'splendid integration'."

And Schäuble reminded the audience: "Britain has always influenced the EU for the better. The European project it joined in 1973 had obvious shortcomings: expensive farm and fisheries policies, no single market, and only nine members. Thanks partly to British political clout, the EU now has less wasteful agriculture and fishery policies, a liberal single market, a commitment to freer trade, and twenty-eight members."

And he continued: "I am more than aware of Europe's shortcomings. But the worst way to reform Europe is not to participate in the reform process. At the last European Council we have reached a good settlement with the UK. A deal that shows that we recognize a vision of a European Union which includes a Member State as full and equal member that does not have the euro as its currency and is not willing to politically integrate much further."

Schäuble then pointed to the five options for organizing a Brexit that *The Economist* explored. "Most of the alternatives to full membership are unattainable, unattractive, or both." And Merkel's most respected European in her coalition government warned: "It would

---

*Germany, in effect, positioned itself  
as a compromise broker between  
Britain and other EU countries.*

---

be extremely hard or even impossible to negotiate a special deal in a 'post-Brexit' atmosphere."

Looking ahead, Schäuble puts a possible Brexit into a long-term perspective: "The European Union will not disappear after a no-vote and neither will the euro area. British trade with EU countries has risen rapidly since 1973, even though—as the European economy has slowed—its share of the total is declining. The EU now takes over 51 percent of British exports of goods, and close to 45 percent if services are added in. So, whether

Britain is in or out, the EU will remain a key partner. Therefore Britain would have to rebuild the institutional, economic, and financial relations with the EU and the euro area almost from scratch. The uncertainty about the duration of the re-negotiation and the content of the new relationship would consequently be large.”

#### GERMANY’S “REMAIN” CAMPAIGN IS BROAD-BASED

Berlin’s coalition government of Christian Democrats and Social Democrats has been preparing for the Brexit battle, along with German experts in major think tanks, business associations, and other private-sector groups.

The Deutsch-Britische Gesellschaft is at the forefront of the German effort to keep Great Britain in the European Union. Its web site provides a list of major studies, papers, and articles on the issue from a German perspective.

Founded in Düsseldorf in 1949—the year the Federal Republic of Germany was established—the German-English Society was an initiative of Lilo Milchsack and others “to restore good relations with neighboring peoples, lead Germany back into the circle of western democracies, and establish respectful rapport with the former war adversary.” Today the DBG promotes German-British discourse on cultural, political, social, and economic topics.

The Deutsch-Britische Gesellschaft initiated an up-to-date “Argumentarium,” put together by a group of experts including Nicolaus Heinen, Martin Heipertz, Christine Majowski, and Daniel Pietzker. They warn that “the EU would lose in terms of international economic and political clout and the risks of intra-European barriers would rise.” The economic weight of the European Union would shrink considerably, losing 16 percent of its GDP in one stroke. With a GDP of €2.2 billion and a population of 64 million, the United Kingdom ranks after Germany as Europe’s second-largest economy. The European internal market would yield its top position as the largest economic area in the world to the United States. The EU’s share of world trade would decrease by 4.3 percent to 15 percent (the U.S. share is 13 percent; China’s is 12 percent).

The DBG authors also make the case that Brexit would be a major setback to further European integration. The completion of the EU internal market could slow and the liberal market orientation would be weakened. Also, the European Union’s regulation policies were essentially shaped by the British in the direction of less bureaucracy and more free market. And how could a major EU project like the formation of a European capital market succeed if the City of London, Europe’s largest financial and banking center—a global hub—stays outside Europe?

The authors of the “Argumentarium” fear that the push for more European labor market efficiency would lose steam, and the United Kingdom’s role as relentless

---

### *Brexit would be a major setback to further European integration.*

---

driver for more open borders to increase international trade would be missed, especially by a leading exporter like Germany.

A Brexit would bring another major change with respect to the European Union’s global role in foreign and security policy, they argue. Great Britain is Europe’s largest military power, ranking fifth in the world. France and the United Kingdom together are the most important voices in the defense and security policy debate. With military expenditures of €57 billion (2.4 percent of GDP), Great Britain represents about a quarter of Europe’s military expenditures.

Finally, the authors have some bad news for Germany with respect to the future of EU finances. They predict that—as things go in Brussels—Germany would be forced to plug most of the financing gap should the European Union lose its second-largest net contributor to the Union’s budget. For the year 2013, the United Kingdom came up with €10.8 billion in net contributions to the EU budget. Germany will be called upon to close much of this financing gap.

Journalist Thomas Kielinger in his *Telegraph* piece mentioned how Konrad Adenauer, Germany’s first post-war Chancellor, had his doubts whether he could convince the British of their European vocation. After London reacted coolly to the Schumann Plan, the nucleus of the soon-to-emerge concept of a unified Europe, Adenauer lamented: “Britain is obstructing all efforts for European integration. She regards herself more as a neighbor of Europe than as a European nation.”

Yet as early as December 1946, Adenauer confided in a letter to a friend that Britain’s institutional stability and its liberal tradition, “which stands in clear contrast to Continental Europe,” were indispensable for the unification of Europe.

Clearly, for Chancellor Merkel and for the future of the European Union, the stakes are high. ◆