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***Miami- Florida European Union Center of Excellence***

***EUMA***

**Germany's Marriage of Necessity**

**- Fraser Cameron**



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# **EUMA**

***European Union Miami Analysis (EUMA)*** is a by-weekly service of analytical essays on current, trend setting issues and developing news about the European Union.

These short papers (between 2,000 and 2,500 words in length) will be produced by the Miami-Florida European Union Center of Excellence (a partnership of the University of Miami and Florida International University) as an outreach service for the academic, business and diplomatic communities.

Among the topics to be included in the series, the following are suggested:

- The collapse of the Constitution and its rescue
- The British presidency of the EU
- Turkey: prospects of membership
- Impact of the German elections on the EU
- The budget impasse
- Immigration crisis and cultural challenges
- Security threats and responses
- The EU and Latin America
- The EU as a model and reference for inter-American integration
- The Common Agricultural Policy and other public subsidies
- The euro and the dollar
- EU responses to Katrina
- EU image in the United States

These topics form part of the pressing agenda of the EU and represent the multifaceted and complex nature of the European integration process. These short papers also seek to highlight the internal and external dynamics which influence the workings of the EU and its relationship with the rest the world.

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# **Germany's Marriage of Necessity**

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## ***Germany's Marriage of Necessity***

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### **Overview**

Today Germany will have its first female Chancellor, its youngest (51) head of government and the first from the former communist eastern part of the country. This will be only the second time since 1949, and the first since Germany was reunited in 1990, that the country will experience a grand coalition of Christian and Social Democrats. It was a lengthy and difficult process, rather like "mating porcupines" according to outgoing Chancellor Gerhard Schroeder.

What will be their priorities and what are the chances of success? To most Germans the coalition will be judged on whether it can reduce the country's huge five million unemployment figure. This will require renewed economic growth but there are sharp differences between the parties on how best to achieve this. There is little talk of renewal or flexibility. There is, however, greater agreement on the need to restore the public finances to good order and the parties have agreed a number of tax increases in an effort to reduce the ballooning budget deficit. Two other key areas are pension and healthcare reforms. For many years Germans have been used to lavish welfare benefits but the state can no longer afford such largesse. Getting the public to accept the need for cuts is another matter. On foreign policy there is a large measure of agreement with the emphasis on relations with France, Poland and the United States. But Washington should not expect an uncritical attitude by the new team in Berlin. The coalition agreement acknowledges the importance of good transatlantic relations but states clearly that differences should be discussed openly in a spirit of friendship and partnership. Europeans will be looking on anxiously to see whether the coalition can deliver because without reform in Germany the prospects elsewhere will remain bleak.

### **Introduction**

When Angela Merkel is sworn in today as Germany's Chancellor she will be making history. She will be not only the first female occupant of the Chancellor's office but also the first leader from former communist East Germany to rise to the pinnacle of the political tree in Europe's most important country. Six months before the elections in September Merkel looked as if she was heading for a sweeping triumph and could govern with her preferred junior partner, the liberal Free Democrats. But during the election campaign the Social Democrats (SPD) made a surprising comeback led by Gerhard Schroeder, their charismatic leader and Chancellor. The SPD's recovery was aided by some major gaffes by Merkel's Christian Democrats (CDU) and its

sister party, the Bavarian Christian Social Union (CSU). Particularly damaging was the impression that a CDU-led government would introduce a flat tax. This was a propaganda gift to the SPD who convinced many uncommitted voters that such a change would only benefit the rich. Merkel's loss of a ten point poll lead and wafer-thin margin of victory has weakened her in the eyes of her party. But the pastor's daughter from the east did not box her way to the top spot in the CDU without displaying some fighting qualities. She quickly called a vote to underline her authority and postponed any analysis of the CDU's poor electoral performance until after the coalition negotiations were completed and she was safely installed in office.

### *The Coalition*

It has taken over a month of hard bargaining to form the coalition and Merkel has paid a high price for her elevation to the Chancellor's office. She had to agree to the SPD taking eight ministries including foreign affairs (Franz-Walter Steinmaier), finance (Walter Steinbrück) and labor (Vice-Chancellor and former SPD boss Franz Münterfering). The SPD have elected a new party leader, Mathias Platzeck, a rising star from the east, who will play a key role behind the scenes in holding the coalition together. The CDU and CSU have six ministries, including defense and economic affairs. The balance is made up by Merkel herself and a Cabinet office minister. Merkel has no government experience but she has ministers in her team such as Wolfgang Schäuble (interior) who have previously served in government. Initially the CSU leader, Edmund Stoiber, wanted the economics ministry but he rejected the post when it became clear that he would have relatively little power compared to the finance minister. Many think he would have found it difficult if not painful to serve in a Cabinet under a woman who he clearly considers inferior to himself. Stoiber, who was narrowly beaten by Schroeder three years ago, will likely carp from the sidelines but his influence in Bavaria and nation wide has been weakened by his volte-face. A number of other CDU regional leaders have refused to join the coalition giving rise to speculation that they doubt whether it will last the planned four years. But neither of the coalition parties has an interest in early elections. They are condemned to try and make a success out of their coalition agreement.

### *Foreign Policy*

The coalition agreement states that European integration and the Atlantic partnership are of "central importance" for Germany. Merkel's first foreign trip, the day after her inauguration, will be to Paris followed by Warsaw. This is a clear sign of continuity with priority given to Germany's immediate large neighbours. Merkel has met President Chirac before but her closest political ally is Nicolas Sarkozy, the talented and pushy interior minister who has ambitions to become president in 2007. In Warsaw Merkel will find the political situation confusing as the nationalist Law and Justice party struggles to form a minority government. But the visits to France and Poland are symbolic of Merkel's wish to revitalize the Weimar triangle, a loose Franco-German-Polish alliance.

Merkel is also on good terms with another Christian Democrat in a key position, Jose Manuel Barroso, President of the European Commission. Europe did not feature too highly in the coalition agreement but Germany takes over the EU presidency in the first half of 2007 and will wish to do a good job. (see below).

It was no secret that Tony Blair had hoped for a clear victory for Angela Merkel, believing that she shared his commitment to liberal economic policies. But Merkel is no Thatcher and her desire to introduce reforms, never strong in the first place, will now be tempered by coalition politics.

Relations with Russia will change. Merkel is unlikely to develop the bonhomie that existed between Schroeder and Vladimir Putin. She will pay more attention to the smaller states in Europe, something Schroeder neglected during his years in office.

George W Bush will be delighted to see the end of Schroeder. But he should not expect that Merkel will follow the US blindly. The coalition agreement recognizes the importance of NATO and transatlantic relations but also points to the necessity of airing disputes openly and in a spirit of friendship and partnership.

### *European Policy*

The coalition agreement recognizes that Germany has a special responsibility for the maintenance and continuation of European integration. The present crisis, following the no votes in the French and Dutch referenda on the constitutional treaty, should be regarded as an opportunity to re-engage with citizens and concentrate only on the essentials. Germany wants to keep the treaty alive and hopes that the ratification process can be continued in 2006. The coalition will also take a more hard-headed approach to defending Germany's interests in Brussels including another push to get the German language used more. Berlin will pay its fair share into the budget and no more. There will be no drastic reform of the common agricultural policy. Restoring economic growth and increasing productivity are priorities but the agreement is silent on details. The agreement warns some of the new member states not to engage in tax dumping. There should be increased powers for Europol (Europe's fledgling FBI) and Eurojust (dealing with criminal matters). Germany hopes to meet the growth and stability pact criteria by 2007. On enlargement the coalition supports the start of accession negotiations with Turkey but warns that if Ankara does not meet the requirements for membership then it will have to settle for a privileged partnership with the EU. On defense the agreement accepts the need for a stronger European defense force that is fully compatible with NATO.

### *Domestic policy*

There is no doubt that the economy will be the central issue that makes or breaks the coalition. The two parties have agreed a package that includes:

substantial public spending cuts to try and reduce Germany's ballooning deficit (estimated to reach €41 billion next year) within 3% - the limit under EU rules – by 2007  
a 3% increase in VAT sales tax – from 16% to 19% - to increase revenue  
raising the retirement age from 65 to 67  
redefining powers between the federal state and the regions

Business leaders have not been impressed with this package. They had wanted Merkel to push through more radical reforms that would have seen a cut in income taxes and more flexible labor markets. The CDU had promised to end centralized wage bargaining but the SPD, under strong union pressure, refused to move. Business also wanted an extension of nuclear power but these plans were also vetoed by the Social Democrats. Many economists also doubt the wisdom of hiking VAT when there is so little consumer confidence. Another sensitive policy area requiring urgent reform, the health sector, was quietly shelved due to lack of agreement.

## **Conclusion**

Even before Angela Merkel takes office there has been a wave of criticism, largely from business circles, about the watering down of the reform program. Given the restraints of building a grand coalition this was inevitable. But as the new SPD leader Platzeck said, it was a marriage of necessity not a marriage of love. The fact is that Germany's problems are so huge that no single party can tackle them alone. The forced marriage of CDU and SPD may not be romantic but it offers Germany the best way out of a dire economic situation. Given the importance of Germany to the European and global economy we should all be raising a glass to the newly married couple.