



## The political situation in Germany: Implications for further EU integration

*Given its size and economic strength, Germany plays a pivotal role in the EU. Parliamentary elections in 2013 might result in a stable and EU-friendly grand coalition. However, recent appeals against the ESM ratification suggest that politicians will be constrained by legal boundaries regarding further EU integration.*

### The current setup

The German parliament is currently composed of five factions (table 1), with CDU/CSU (Christian-democrats) and FDP (Liberals) making up the government led by Chancellor Angela Merkel. The opposition is composed of SPD (Social-democrats), Alliance '90/The Greens (Green party) and The Left (Socialist party).

**Table 1: German Bundestag 2012**

Party	Seats	in %
CDU/CSU	237,0	38,2
FDP	93,0	15,0
SPD	146,0	23,5
The Greens	68,0	11,0
The Left	76,0	12,3
<b>Total</b>	<b>620,0</b>	<b>100,0</b>

Source: German Bundestag

The Left is a particular case. It is an indirect successor of the former East German Communist Party (SED). It is criticized by politicians and observers alike, that it does not distance itself sufficiently from left-wing radicals<sup>1</sup>. As a result, The Left is widely ignored by other parties and 27 of its MPs are under observation by the German intelligence service<sup>2</sup>.

### Merkel's position weakened

The latest EU-related decisions have been approved by a majority of both government and opposition parties except The Left (table 2). Recently, conflicts have emerged within the governing coalition. Merkel was not able to

obtain the symbolic so-called 'Chancellor's majority' for the approval of ESM, fiscal compact and financial support for the recapitalization of Spanish banks. Passing the ESM bill was dependent on votes of the SPD or The Greens.

**Table 2: Votes in the Bundestag, 29.6./19.7.**

Party	ESM		Spain	
	yes	no	yes	nc
CDU/CSU	218	16	221	13
FDP	82	10	80	9
SPD	128	8	118	14
The Greens	65	1	54	1
The Left	0	71	0	6C
<b>Total</b>	<b>493</b>	<b>106</b>	<b>473</b>	<b>97</b>

(Abstentions: 5/13; No vote: 16/37)

Source: German Bundestag

Especially the CDU's so-called sister party, CSU, being in power in Bavaria since 1957, showed resentment regarding Merkel's decisions of transferring ever more power to Brussels. Among others, CSU politician Peter Gauweiler appealed against the ESM at the Federal Constitutional Court. Horst Seehofer, Bavaria's Minister-President and chairman of CSU, publicly threatened Angela Merkel to break up the coalition if she would not change her stance on the ESM. As Mr. Seehofer is known for this kind of statements, a breakup of the coalition does not seem likely at this point. But the other coalition partner, FDP, also clearly communicated that they will not approve any further measures towards the mutualisation of debt.

Overall, Merkel sees her position weakened and has had to make more concessions to keep her support intact. For example, SPD and Greens were to be assured that a financial transaction tax would be pushed for on an EU-level in order to secure their votes regarding the ratification of ESM and fiscal compact.

<sup>1</sup> Bundestag document, 01/2012

<sup>2</sup> Bundestag documents

### More than one year until elections

The remaining time until elections in September 2013 might be characterized by little progress in Germany with respect to EU development. It has been shown that the government was not able to secure sufficient majorities for all EU-related decisions and relied on support from SPD or Greens. With respect to Greece, there is increasing resistance throughout all parties to approve further financial support if austerity measures and reforms are not being implemented.

As for approving direct bank recapitalisation, it is uncertain if there will be a majority in favor. As communicated and agreed at the EU Summit of late June, a common European banking supervisor is a prerequisite for direct bank recapitalisation in any case. But even if that is established, approval by the Bundestag cannot be taken for granted given concerns of members of all parties. Further, with parties positioning for the upcoming elections, it is to be expected that they will soon try to differentiate themselves from each other. Support from the opposition, therefore, is likely to decrease during next year.

### Elections in 2013: A grand coalition?

The complex political situation in Germany can be seen from table 3 which is based on a poll among 1255 citizens.

The two traditional coalitions –SPD/Greens or CDU/CSU/FDP– would get insufficient votes to form the government. We do not see this situation changing until elections. A coalition made up of SPD, Greens and FDP has already been ruled out by both SPD and Greens.

**Table 3: Poll as of 15 July 2012**

Hypothetical coalitions	Votes (%)
CDU/CSU, SPD	66,0
SPD, Greens, Pirate party	50,0
CDU/CSU, Greens	49,0
SPD, Greens, FDP	47,0
SPD, Greens	43,0
CDU/CSU, FDP	40,0

Source: ZDF Politbarometer, Rabobank

The Pirate party will probably pass the five percent hurdle and enter parliament, but it seems unlikely that any of the established parties would be willing to collaborate with them. The Pirate party was founded in 2006 and by now it is part of four Länder parliaments, with 7-9% of votes. They are not in any government yet, hence they do not have any seats in the Bundesrat (Federal Council, the other legislative body next to the Bundestag). Observers argue that they have developed from a protest party to a proper political party over the years. Nevertheless, at this point, the established parties do not consider them as a potential coalition partner.

A coalition of CDU/CSU and the Greens might be an option; but based on negative experiences in a Bundesland government which broke up ahead of the end of the government period, this has become an unlikely option.

Most powerful would be a so-called grand coalition of CDU/CSU and SPD which would exhibit a majority of 66%. For the second time in postwar Germany, a grand coalition has been in power from 2005 to 2009. During this period, the government was able to adopt comprehensive legislation, such as an increase in retirement age, a reduction of social security contributions and measures to fight the immediate consequences of the financial crisis of 2007/08. Therefore, political gridlock between CDU/CSU and SPD is not to be expected.

In such a coalition, the CDU/CSU faction is likely to receive the largest share of votes, meaning that Angela Merkel would remain in office as chancellor. This finds approval among German citizens, of which 48% think that a grand coalition would be 'good'.<sup>3</sup> Further, figure 1 shows the German citizens' satisfaction with Angela Merkel's work since she became chancellor in 2005.

<sup>3</sup> ZDF Politbarometer, 02/2012

Interestingly, satisfaction remained constant after the financial crisis hit in 2007/08. The strong drop as from early 2009 is likely to be related to electoral campaigns within Germany. The rise starting in August 2011 suggests that citizens are satisfied with the way Angela Merkel represents German interests, including at recent EU Summits.

**Figure 1: Angela Merkel's approval rating**



Source: ARD Deutschland TREND, 2005-2012

Within the overall difficult political and legal environment in Germany currently, a grand coalition can be regarded as the least negative outcome with regards to further EU integration. It would exhibit a vast majority and past experience is promising. Further, with at most two Länder elections being held between September 2013 and autumn 2014, the Bundesrat will have a stable composition for at least one year.

**A new coalition for Eurobonds?**

Among others, Rabobank chief economist Wim Boonstra argued that Eurobonds would be able to effectively calm financial markets, thereby setting conditions for countries to deal with their public finances and to regain growth<sup>4</sup>. The German government has been one of the major opponents of Eurobonds, but supporters and opponents within Germany have been changing their minds over the last months.

<sup>4</sup> See Boonstra (2012): Conditional Euro T-Bills as a transitional regime. Rabobank Economic Research

Until early this year, the SPD strongly pushed for the introduction of Eurobonds, joining forces with François Hollande, France's president. Controversies about the ESM and fiscal compact this year revealed that German citizens are concerned about further mutualisation of debt without new control mechanisms. As a result, it seems, the SPD adjusted its stance on Eurobonds and distanced itself from Hollande. Sigmar Gabriel, chairman of SPD, stated in May that Eurobonds are equal to mutually guaranteed debt, which will not be supported by the SPD. In a subsequent speech, however, he added that it might become an option once a common fiscal authority is in place.

The Greens followed a similar pattern as the SPD. Last year, they supported Eurobonds and strengthened Mr. Hollande's position, while by now they have converged to the view that there will be no introduction of Eurobonds without a common fiscal authority and a clear legal framework.

In July, the CDU ministers Ursula von der Leyen, Minister of Labour and Social Affairs and Wolfgang Schäuble, Minister of Finance, said that Eurobonds could be an option. They also named more common fiscal policy and control as prerequisites. Generally, the concept of a fiscal union remains largely unspecified. Giving some indication, Wolfgang Schäuble recently proposed to appoint an EU finance minister with the right to veto on national budgets. Further, the EU finance minister should be in charge of setting yearly limits for new national debt.

The FDP is not deviating from its strict standpoint against Eurobonds yet. According to Guido Westerwelle, Vice Chancellor and former chairman of FDP, Eurobonds are an inadequate instrument to solve eurozone problems regardless of timing or conceptual issues. Further, the FDP publicly communicated that it would oppose any move towards the introduction of Eurobonds. After elections in 2013, however,

the FDP will probably not be in the position to block the introduction of Eurobonds. In fact, according to recent polls, the FDP may possibly not even pass the five percent hurdle to enter parliament.

If Bundestag elections in 2013 will result in the SPD replacing the FDP in the government, the grand coalition of CDU/CSU and SPD would exhibit a majority of 66% according to recent polls. Both CDU and SPD have been converging to the view that Eurobonds can be an option in the future based on strict conditions, which will likely be a corner stone of further EU integration. While Angela Merkel and the CSU still oppose Eurobonds at this point, it can be expected that they will agree once sufficient control mechanisms have been put in place. In that sense, a grand coalition would not give rise to a fundamental shift in Germany's stance on Eurobonds straight away. Rather, Germany will require more common fiscal policy and supervision before approving further debt mutualisation. This would be similar to Germany's condition to put in place a common European banking authority before approving direct recapitalization of banks through the ESM. It seems unlikely, therefore, that Eurobonds will be introduced earlier than 2014.

### Legal constraints

With majorities in both Bundestag and Bundesrat, a grand coalition would be in the position to push through decisive pieces of legislation. That said, the most severe constraint towards further European integration might turn out to be legal boundaries. On 12 September 2012, the German Constitutional Court will announce its decision with regards to the ESM and fiscal compact. This announcement is expected to define clear legal boundaries that must not be crossed without further democratic legitimation, perhaps in the form of a referendum. In order to mitigate the risk of a referendum outcome against further EU integration, politicians need to act within legal boundaries and to communicate the reasoning behind their actions to citizens<sup>5</sup>.

### Conclusion

*Taken together, although elections in September 2013 may well yield a positive outcome in terms of EU politics, legal constraints could become an important limiting factor in Germany. In all, although Germany will remain supportive of further EU integration, progress is likely to remain incremental.*

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<sup>5</sup> See Rabobank Macro Comment 12/41: German deliberations on the ESM