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Germany: Ratification of the fiscal pact in June?

Konrad Popławski

On 16 June, the leadership of the SPD announced an agreement to ratify the treaty on the European Stabilisation Mechanism (EMS) and the fiscal pact. Both instruments are crucial in the government's strategy for fighting the crisis in the euro area, and a two-thirds majority in both houses of the German parliament, the *Bundestag* and the *Bundesrat*, is necessary to obtain their ratification; for this, the votes of the opposition are required.So far, the opposition parties – the SPD and the Greens – have made their consent conditional on the government supplementing these two agreements with pro-growth measures and a tax on financial transactions. In addition, both parties have so far only signalled their consent to ratify the EMS (which should become operational as of July this year), and to postpone the debate on the fiscal pact until the autumn (ratification must take place before the end of this year). The SPD leadership's decision, after many weeks of negotiations with the government, means that Germany will probably ratify both agreements on 29 June.

Commentary

- Despite consenting to the ratification of both treaties, which it had supported from the beginning, the SPD wanted to delay the implementation of both agreements and obtain tangible concessions from the government. As the new French president François Hollande does, the SPD wanted to introduce a tax on financial transactions and supplement the agreement with new measures supporting economic growth, such as infrastructure bonds, allocating unused funds from the Cohesion Policy to investments in the countries most affected, and increasing the capital of the European Investment Bank. The federal government has probably agreed to introduce these measures, and also promised the SPD that it will continue to push for the introduction of a tax on financial transactions in the European Union.

- The opposition's consent does not mean the end of the government's problems, as it will have to convince the federal *Länder*, as represented in the Bundesrat. Some representatives of the *Länder* have announced their opposition to the fiscal pact, which for them could mean the need to accelerate the implementation of their savings programs. Under the current German 'budget brake' law, the *Länder* must reduce their debt to zero by 2020.

- The opposition's consent to the ruling coalition's projects shows that Angela Merkel still has a very strong political position in Germany, and that the opposition parties have no alternative strategy for Germany in the crisis to that of the government, which is based on constructing a political union in the euro area in exchange for further loans. It is true that supplementing the fiscal pact with pro-growth measures could be seen as a tactical victory for the opposition. However, voters still perceive the CDU as more moderate and better at defending Germany's interests during the crisis, as evidenced by the country's strong economic performance. On the other hand, there could be room on the political scene for a party with a more Eurosceptic programme, especially if economic conditions deteriorate in Germany. More and more Germans are opposed to further support for the euro area – in polls, a third of respondents favour a return to the Deutschmark, but such views are not represented in the largest parties' programmes. In the future, this may lead to a rise of parties and movements outside the political mainstream, such as the Free Electors (*Freie Wähler*) and the Pirate Party.