

Coalition agreement in Germany – a continuation with clear adjustments

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On 27 November, the CDU, the CSU and the SPD completed their work on the coalition agreement. Its content proves that they intend to continue the policy Germany has thus far pursued. However, two aspects bear noting. Firstly, there is a visible turn to the left (*Linksrueck*) caused both by the participation of the Social Democrats and the Christian Social Union (CSU) in the government, and also by the recently observed tendency for the CDU (Christian Democratic Union) to shift from the position of a conservative party towards the centre of the political scene and to exploit the ideas which are believed to be the domain of the 'left camp' in Germany (ecology, supporting mothers' employment and the integration of immigrants). This shift can also be explained as a return to the roots, i.e. the assumptions of the idea of a social market economy (*soziale Marktwirtschaft*), which is widely supported and accepted in Germany.

Secondly, the political adjustment will only correct the mistakes made during the implementation of the energy policy (the excessive costs of *Energiewende*) and the social policy pursued by the previous coalition (the discontinuation of some aspects of the Agenda 2010 reform and the introduction of a minimum wage). This is based on the assumption that the general direction is the right one. One should also keep in mind that these adjustments may only seem to be technical amendments, while ultimately they could turn out to be fundamental changes. This especially may concern the eurozone reform and the implementation of the transformation of the German energy sector.

The negotiations regarding the coalition agreement, which consists of 185 pages, were closed on 24 October. Special negotiation teams totalling 75 people were established. The agreement following the negotiations needs to be approved in a referendum within the SPD which will be conducted in the form of postal correspondence between 6 and 12 December. If the Social Democrats approve of the coalition, which is likely, the new government will be sworn in on 17 December in parliament. Pursuant to the still informal deal between the coalition members, the CDU will have five ministers in the cabinet (plus the Head of the Chancellery), the SPD will have six, and the CSU will have three (see Appendix). The prospective coalition partners will refrain from announcing the proposed draft of the cabinet until the final decision to form a grand coalition has been taken.

***Energiewende* and the euro – kept out of the spotlight in the campaign, these issues are back in the mainstream debate**

The coalition agreement envisages the continuation of the long-term energy transformation goals in the field of energy production, i.e. 55–60% of electricity is to be obtained from renewable energy sources (RES) by 2035 and an 80–95% reduction in greenhouse gas emissions by 2050 in comparison to 1990. However, the most important change in the way *Energiewende* has been viewed so far is its focus on limiting the growth of energy prices, which has been put on a equal footing with reduction of emission levels. Germany still wants to promote ambitious goals of greenhouse gas emission reduction at the EU and other international forums, but it will at the same time take into consideration the need to ensure the competitiveness of the German and global traditional branches of industry (e.g. chemical and machine-building). Especially so, since the Social Democrats were not pushing through the ideas from their election campaign during the coalition negotiations (increasing the share of RES in electricity production up to 75% by 2030 and adopting a climate protection act). Furthermore, their key negotiator for energy issues was Hannelore Kraft, the prime minister of North Rhine-Westphalia, a highly industrialised federal state. The coalition partners also agreed to reduce the subsidies for renewable energy sources, to make energy production using RES more predictable and also to launch subsidies for reserve conventional power plants. The implementation of the reforms could be streamlined significantly, since everything seems to indicate that the SPD has abandoned its idea to create a separate Ministry for Energy (the coalition agreement does not provide for this). Instead, it may be expected that more focus will be put on energy issues at the Ministry for Economy if it is to be headed by the SPD's president, Sigmar Gabriel.

The line adopted in European policy by the previous coalition will be continued in almost every aspect: there will be no consent to any form of mutualization of the eurozone's debts but an offer of conditional financial assistance in exchange for launching tangible structural reforms. The coalition partners insist that the debts of the eurozone member states and of the financial sector should be reduced in the first order with the use of own funds of the countries concerned. Angela Merkel's proposal of granting financial aid for the implementation of specific structural reforms, which is to be guaranteed under intergovernmental agreements, is also expected to be developed further. Stabilisation loans will only be applied in cases where the eurozone's stability is at risk. This approach to European policy issues may mean that the new coalition will be pushing through currency union reforms with the use of financial incentives and instruments such as the European Stabilization Mechanism, activity of the European Central Bank and banking union mechanisms. These actions are likely to be aimed at improving the eurozone's competitiveness, creating a better industrial base and boosting exports to the USA and emerging markets. Ultimately, they may bring about deeper changes within the EU itself, for example, a significant enhancement of co-operation between eurozone member states.

The shift to the left in the economic policy

The introduction of the minimum wage, which has previously been present in only a few sectors, is the most significant adjustment of Germany's economic and social policy. Economic circles have warned that this could harm the conditions of doing business in

Germany and adversely affect economic growth, especially in the eastern federal states. Companies in the east of the country, where many workers are paid lower wages than the newly introduced minimal level of 8.5 euros per hour, will have to raise the rate from 2017. According to estimates from the Ifo Centre for Economic Studies in Munich, the introduction of a minimum wage at the same level could put as many as one million jobs at risk. Thus far, it was precisely the flexible way of setting the wage rates agreed by employers and employees that allowed a rapid response to the consequences of the economic crisis. Employers are also emphasising the problem with the new welfare rights vested in employees (for example, disability pension can be granted to them earlier and stricter rules will apply for contracts with people hired via employment agencies), which might make the labour market less flexible. The issues the Christian Democrats have managed to defend are: keeping taxes at the same level, and maintaining the system of employment contracts and a few kinds of 'zero contracts' (which provide for limited social insurance premiums) already in use.

One element viewed positively by firms is the creation of mechanisms for supporting infrastructure development and modernisation in Germany. A total of 5 billion euros has been earmarked for this purpose by 2017, and this will be helpful for the western federal states since they have problems keeping the adequate infrastructure standard. These expenses may turn out to be insufficient since annual needs are estimated to be 3 billion euros. The introduction of tolls for cars using German roads (most likely in the form of tolltickets) will be a partial solution, as will raise the costs for heavy goods vehicles to use the roads. These have been estimated at having the potential to yield 250–800 million euros.

The main directions of Germany's foreign and domestic policy will remain unchanged

There is political consensus in Germany regarding the main direction of its foreign policy, and this is reflected in the coalition agreement. The lack of major differences and controversies between the parties allowed negotiations regarding this chapter of the agreement to be finalised rather quickly. What seems interesting is the clear and greater emphasis placed on relations with the BRIC countries (especially with China, which has been determined as a strategic partner in the coalition agreement, and with Russia, with which Partnership for Modernisation is planned to be enhanced. This is probably merely a friendly gesture towards the key originator of this project, Frank-Walter Steinmeier, the likely minister of foreign affairs in the new cabinet).

It may be concluded from the agreement that a free trade agreement, which according to German estimates will in the long term raise Germany's GDP by 4.7% and contribute to the creation of 180,000 new jobs, will be of key significance for future transatlantic relations. This co-operation has been overshadowed by the reports about Chancellor Merkel's phone being tapped by the US agency, NSA. This is expected to be used as a basis for negotiating a new agreement between the German and US diplomatic services. If the agreement is signed, it will not only set new directions in co-operation between the services, but also the relations existing so far, which are based on German dependence on the USA originating from Cold War times, will undergo a major transformation.

The coalition agreement traditionally mentions bilateral relations with France and Poland as the most important partners in European policy, and for the first time emphasises the importance of relations with the Czech Republic (this was demanded by the Bavarian CSU, which has a large electorate among Czech expellees and homeland associations, and is interested in establishing closer relations with this neighbour).

Domestic policy is also an area with a low potential of conflict between the prospective coalition partners, since they agree on most issues. A strong Christian Democratic influence can be seen in security policy arrangements. This particularly concerns the competences of the secret services since the coalition partners agree that it is necessary to conduct a reform and to give the parliament more control over the activity of these services. This means that the competences of the Federal Office for the Protection of the Constitution will be centralised, the entities in charge of cyber security will be developed significantly. Another important area for the Christian Democrats is telecommunication surveillance at the expense of personal data protection. This will make it possible to introduce the EU Data Retention Directive, which gave rise to serious conflicts inside the previous government. In turn, integration policy is the area where the Social Democrats' influence is most evident. This is manifested primarily in the promise of legalising dual citizenship for people born in Germany. Nevertheless, this policy will still be targeted at the naturalisation of foreigners living in Germany through language learning, improving access to education already at the earliest stages and to vocational training, and to creating a greater openness among public services (police, fire brigades, etc.) to individuals of foreign background.

Conclusion

1. Since the differences in the political manifestos of the Christian Democrats and Social Democrats are constantly reducing, the grand coalition is very likely to operate smoothly until the end of its term. On the other hand, the SPD took a hard line during the negotiations, and thus was able to push through many of the key elements on its agenda. These factors indicate that the Social Democrats should be expected to aspire to a much greater role in the government than their position of the lesser coalition partner could suggest. This tendency may become stronger if supporters of the coalition with the Christian Democrats prevail even slightly in the SPD's internal referendum. The Social Democrats' emancipation and their attempt to emphasise their competences in areas of key importance for the SPD may furthermore lead to Chancellor Merkel's role weakening. This will happen if the SPD is, for example, put in charge of a ministry responsible for energy issues.
2. Contrary to expectations, the coalition agreement fails to present a broader vision for eurozone reforms and the possibilities of forming a political union. Nor does the document include an answer to question about the way co-operation will look within the European Union following the possible reforms, and whether the reforms will lead to a deepening integration within the eurozone at the expense of unity of the entire EU. It seems that Chancellor Merkel will use her 'small steps' principle in this area. This still does not rule out that these small steps could lead to fundamental changes in the EU.

3. As regards the energy transformation, a change towards focusing more on the costs of the reforms and security of Germany's entire energy system is visible. On the one hand this may mean Germany will be more open to co-operation with other industrialised nations in creating the EU's energy strategy up to 2030. However, the risk remains that Germany may wish to compensate the RES sector's lower incomes with German subsidies through creating better demand perspectives on the European market.
4. Germany clearly wants to continue its foreign policy and to enhance its economic co-operation with the USA and also with the emerging economies, above all China. In the grand coalition, the position of the Ministry of Foreign Affairs will significantly strengthen in comparison to the Chancellery. This is because Frank-Walter Steinmeier, a Social Democrat, who has already served as a German minister of foreign affairs and who has the reputation of being a skilful official, is likely to be put charge of this Ministry.

Appendix

The likely distribution of selected government positions on the basis of information from ZDF TV (26 November) and *Handelsblatt* newspaper (2 December)

Name	Ministry	Party
Sigmar Gabriel	deputy chancellor, Ministry of Economics with elements concerning the energy sector	SPD
Frank-Walter Steinmeier	Ministry of Foreign Affairs	SPD
Ronald Pofalla	Chancellery	CDU
Wolfgang Schäuble	Ministry of Finance	CDU
Thomas Maizière de	Ministry of Defence	CDU
Thomas Oppermann	Ministry of Internal Affairs or Ministry of Justice	SPD
Manuela Schwesig	Ministry for Family Affairs, Senior Citizens, Women and Youth	SPD
Andrea Nahles	Ministry for Labour and Social Affairs	SPD

Ursula von der Leyen	Ministry of Health	CDU
Alexander Dobrindt	Ministry for Transport and Construction or Ministry for Agriculture and Consumer Protection	CSU
Peter Ramsauer	Ministry for Transport and Construction or Ministry for Agriculture and Consumer Protection	CSU
Peter Altmaier	Ministry for the Environment, Nature Conservation and Nuclear Safety	CDU
Hans-Peter Friedrich	Ministry of Internal Affairs	CSU