

Cautiously Ambitious: German Government Sets the Right Tone for Strong EU Policies

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Five months after the general elections, German Chancellor Angela Merkel is finally set to form a new government after the Social Democratic Party base approved a grand coalition with the conservative CDU/CSU. Their parties' coalition deal pushes for closer European integration alongside EU reform, strong German-French relations at the core of the EU, and close European cooperation in the areas of defense, enlargement and migration. It continues the paradigm of post-war German foreign relations by focusing on partnerships. At the same time, this paradigm is under threat: Both the EU and US relations have become less certain. Germany needs to proceed with ambition – and caution. The coalition agreement is a good start.

A Push for European Integration and Reform

Five months after the general elections in September 2017, Germany is heading towards a new so-called “grand coalition” of Christian (CDU, CSU) and Social Democrats, which is now set to come into place in mid-March 2018. This ends a period of uncertainty during which Germany's leadership has been decried by many international observers. While there is no guarantee that this government will actually hold together for the full four-year period, there are reasons to assume that it will pursue a more forward-leaning European policy than its predecessor did. The so-called “coalition treaty”, the 177-page document that outlines the program of the grand coalition, does not draw any red lines on any EU issue that would prevent progress.

However, the new government will need to engage strongly in a more controversial debate over the future of Europe. Within Germany, such a debate is especially required as its new seven-party parliament – a new political constellation – will now see the far-right Alternative für Deutschland (AfD) leading the opposition. Germany also needs to engage more strongly with its partners in the EU, where national interests diverge more than ever and

some governments openly reclaim sovereignty, depicting European integration as more of a threat than an asset. As a start, however, the coalition treaty sets the right tone for the challenges the grand coalition will be facing both at home and in Europe.

US and EU: Cornerstones of German Foreign Policy Are at Risk

During the past legislature, Germany's foreign and defense policies were put through reviews which helped shape the country's ambitions, commitments and needs to invest in both fields: Both, Germany's foreign policy review of 2014 and its 2016 Defense Whitebook acknowledge that, in view of rising uncertainties, international and security environments have changed rapidly, and they conclude that Germany needs to take a stronger role alongside its partners.

Since 2017, the sense of urgency in the German capital has grown further as a result of US-President Donald Trump's handling of international affairs and his overt protectionism. Increasing tensions within the EU and growing instabilities in the EU's neighborhood have equally fostered concerns. Two of the main traditional parameters of Germany's foreign policy are today seen as challenged: the transatlantic partnership and the European Union. The foreign policy review of 2014 had reaffirmed both of these as cornerstones of German foreign and security policy. Today, they remain the prism through which the incoming government will also regard its foreign policy, albeit with an added emphasis on Europe.

Against this backdrop, the coalition treaty starts with strong symbolism. Its first chapter is devoted to the future of Europe, and the EU is referred to 312 times throughout the document. On substance, the incoming government recognizes the need to strengthen the EU's competitiveness, innovative capacities, economic and social cohesion and especially the euro area as well as the EU's role internationally.

Germany is Ready to Pay More, Draws No Red Lines on the Euro Area

In order to pursue these goals – as well as more ambitious policies in the field of foreign, security and defense policy – the grand coalition intends to strengthen the EU, including the role of the European Parliament, and it is also ready to increase Germany's contribution to the EU budget. This is a significant statement from the EU's largest net contributor: It, firstly, takes some pressure off the EU to cope with the financial hole which the UK's exit from the union is set to tear into its budget. The coalition's declaration, secondly, recognizes the need for Germany to invest more to keep the EU together and to ensure it stays competitive. Germany will require this also to secure the huge benefits EU integration offers to the country. The future of the euro area is the topic on which the new German government faces especially high expectations. To give at least a first response to French President Macron's proposals, the coalition treaty suggests that Berlin and Paris should cooperate in developing reforms to make the euro area more resilient against crises. The treaty picks up Macron's proposals to allocate more money to stabilize the economy and secure further innovation and investment. However, it remains vague on the idea of a common budget for the euro area.

To strengthen the euro area architecture, the coalition treaty sets out the goal to develop the intergovernmental European Stability Mechanism (ESM) into a European

Monetary Fund (EMF), anchored in EU law. It declares that the role of national parliaments should not be impacted by such a move – a statement which reads like an attempt to secure a national veto over stability programs, just as the European Commission has tabled its own EMF proposal. Indeed, the German legal perspective here is clear: Under the constitutionally guaranteed budgetary autonomy of the Bundestag, the German Parliament must ratify each individual assistance package if the financial assistance is based on national contributions to the mechanism.

Goals For the Euro Area, to Be Pursued Especially with France

- Promote and reform the euro area to foster stability in times of crisis
- Apply the Stability and Growth Pact
- Turn the European Stability Mechanism into a European Monetary Fund
- Treat responsibility of risk and liability as non-separable
- Evaluate Commission's and member states' concepts for fiscal control and economic coordination

This setup could theoretically be changed if EU governments were to agree that it could be harmful if renewed crises of confidence in the euro area occur. Without contradicting the coalition treaty's text – rather going beyond it –, the German government could support initiatives to structure the funding of the future EMF differently than that of the ESM. It is, of course, difficult to provide a potential EMF with the necessary firepower for crisis management other than through national contributions and guarantees, but there are strong arguments to exit the current system of national contributions and veto threats.

On another key issue, the Banking Union, the coalition agreement leaves a blank. It is good news that, in contrast to the previous government, it does not exclude a European Deposit Insurance which would complete Banking Union. However, domestic resistance will persist against any step that suggests an increase of risk sharing in the euro area.

Meanwhile, the treaty is ambitious on moving ahead with a Social Pact for the EU: This it to include the guarantee of social rights, the principle of equal pay for equal work and the coordination of labor market policies. The grand coalition also seeks to introduce a European consolidated tax base and a minimum tax rate. These would be important elements to complete the single market.

France, here, is mentioned as the key partner with whom these goals should be pursued.

EU Budget, Competitiveness, Tax

- Higher German financial contributions to next financial framework
- Specific budget for:
 - Economic stability
 - Social cohesion and convergence
 - Support for structural reforms in euro area, development of an investment budget
- Promotion of strategic research capabilities, innovation capacities and completion of digital domestic market
- Completion of financial transaction tax
- Fight against tax dumping and ensuring fair taxation of major players like Google, Apple, Facebook and Amazon

Domestic Constraints Against Integration Persist

In the grand coalition, both the Foreign Ministry and the Finance Ministry will be headed by Social Democrat ministers; this fact may facilitate the much awaited Franco-German initiative on euro area issues, especially as the Economics Ministry is set to be headed by Peter Altmaier, a CDU politician with a strong European track record. Indeed, despite all moves to strengthen governance in the euro area throughout the crisis management over the past ten years, Berlin is highly aware today that more must be done to bolster the European Union. It is widely acknowledged that bridging the North-South divide in the euro area requires stronger German efforts. Although Germany continues to benefit greatly from the currency union, the political and social sustainability of the current setup should by no means be taken for granted.

Nonetheless, domestic restraints also limit the coalition agreement's push for a stronger Europe: It would be wrong to assume that the incoming government will abandon its previous focus on stability, budgetary discipline, competitiveness and the individual responsibility of euro zone members. Indeed, the Stability and Growth Pact is mentioned prominently in the coalition treaty. Neither is the new government likely to give up Germany's previous refusal to install permanent transfers.

Limits also remain for any initiative to deepen the euro area as the German constitution does not allow bailouts for other member states and guarantees the budgetary

autonomy of the Bundestag. It should also be taken into account here that the German Parliament – which holds a key role in any effort to reform governance in the euro area – today faces more skeptical voices in its own rows: Critics include not just members from the governing CDU/CSU but also the far-right party Alternative für Deutschland (AfD) which demanded abolishing the ESM altogether during its election campaign.

New Coalition Emphasizes Defense, Enlargement and Migration Policy

The coalition treaty goes far beyond euro issue areas in its emphasis that the EU foreign, security and defense policy need to be strengthened. It suggests enhancing cooperation as part of PESCO: In doing so, it refers to a framework which ensures that political instruments prevail over military instruments in the EU – a move that reflects the traditional Social Democratic perception of the union as a “Peace Power”. To what extent Germany will be able to push for a stronger PESCO will depend above all on how much the new coalition government is willing to step up Germany's defense capabilities. On this matter, the domestic debate on Germany's interests and responsibilities will undoubtedly be informed by strong signals from EU partners who demand a heavier German engagement within NATO and the new EU structures.

Careful to hold the balance between deepening and widening the EU, the coalition agreement argues for internal reforms and a further enlargement of the union, in particular for the Western Balkans countries. The incoming government pledges to continue, or even increase, Berlin's strong support for the Western Balkans' accession, especially since the European Commission has published a forward leaning strategy on EU enlargement. Regional cooperation between the Western Balkan countries and support for this through the Berlin process stays a priority. However, the rule of law, democratic principles and the fight against corruption also remain key concerns for Berlin. The developments in some Central and Eastern European countries have only increased this awareness: This is manifest in the coalition treaty's explicit reminder that criteria regarding the rule of law need to be met before accession.

On the issue of migration, highly controversial among a number of member states, the coalition treaty calls for better steering and handling. This is to include an improved European border protection and a responsible sharing of the burdens of handling migration within the EU. Berlin will have to act as a bridge between those

countries, especially in Central and Eastern Europe, who refuse to accept immigrants and those who insist on more inner-European cooperation on the matter. The issue of immigration continues to hold a huge potential for conflict within the EU. At the same time, further immigration flows are to be expected given the fragile situation in the Middle East and parts of Africa as well as the desperate situation of millions of displaced people there. Therefore, Berlin should join efforts with other partners to move a common asylum policy and the requirements for a successful management of the migration system to the top of the EU's political agenda. Combating the causes for migration is equally key. The coalition agreement proposes developing a "Marshall Plan for Africa" with partners. This suggestion, however, cannot hide the fact that the new German government will have to review and refine its own approach to Africa.

Migration

- Emphasis on humanitarian responsibility
- Improve steering and handling of migration
- Enhance European border protection
- Share Responsibility for handling refugees within EU
- Combat causes of migration and flight
- Develop Marshall Plan for Africa (Agenda 2063)

Partnerships with Allies Remain Cornerstone of Policy

It has been a matter of principle, even paradigm, for post-war Germany to consider and develop its approaches to EU integration and foreign policy in partnership with allies. The coalition treaty offers no surprise in that regard: It underlines the importance of Franco-German cooperation and spells out priorities in this regard: At the top of the list is the issue of euro area reform, but also innovation and digitalization, in particular Artificial Intelligence.

With its priorities on EU reform and EU policies, the new government in Germany is stretching out a hand to France, which will have waited for almost a year after its presidential elections until renewed and intensified Franco-German cooperation can kick in. Berlin reaches out to Paris also with its request to launch a new Elysée Treaty – the Franco-German agreement that has set the framework for the closest bilateral relationship in Europe since 1963.

Interestingly, the coalition treaty also finds special words on relations with Poland, an issue that has become increasingly difficult for the EU due to the current Polish

government's stance on EU integration and on the rule of law and democracy within Poland. Seen from Berlin, Poland, alongside Hungary, symbolizes the much-debated East-West divide that is frequently depicted as a conflict of values even though other aspects also play into this relationship.

Strengthening Franco-German Cooperation

- Draft a new Elysée Treaty on bilateral cooperation
- Develop joint positions on EU matters and international affairs
- Move ahead on EU issues together, if EU-27 cannot agree
- Focus especially on deepening the euro area
- Launch initiative on minimum corporate taxes and consolidated tax base
- Become engine of innovation, e.g. cooperate on AI development

By mentioning Polish-German bilateral relations just after the paragraphs on France, the coalition treaty shows that Berlin continues to see Poland as a pivotal country in the EU's East. It does so even though doubts prevail whether the current Polish government is a reliable partner in efforts to strengthen the EU. Poland is regarded as a key factor in keeping the entire region 'on track': From Berlin's perspective, Hungary alone could not sustain the centrifugal trend of renationalization and withdrawal from Western liberal norms, democratic principles and EU policies.

The coalition treaty calls for improved Polish-German relations, including a stronger involvement of the societies in both countries. When the grand coalition ultimately gets into office, it will likely seek to engage both government and society in Poland, but also stay firm on the democratic principles which all EU members should respect. The coalition agreement prominently suggests reviving the Weimar Triangle; Pursuing this will require a strong political effort from Berlin as neither Warsaw nor Paris are particularly keen to engage with each other at this moment.

With Ambition and Caution: How Germany Should Advance the EU

The incoming government will face a two-fold challenge: It needs to move the EU forward but also bridge its perceived North-South and East-West divides. This will require diplomatic skills and the will to compromise. It will also require more German investment in EU mat-

ters and bilateral relationships, as the coalition treaty acknowledges. Fundamental to all these moves is the honest recognition that it is in Germany's own best interest to develop and maintain a strong, politically stable and prosperous EU and euro area.

The coalition agreement outlines the option to move ahead in smaller groups, in particular around France and Germany. More differentiation can, however, also lead to disintegration, if it is not managed well. Hence, caution is necessary, and particular attention should be paid to the risk that moving ahead with one group may alienate others. This is especially important if the German government remains committed to keeping the EU-27 together after Brexit. Not all governments or EU actors may agree on this as their highest priority, as some can envisage a future with a smaller number of member states.

In summary, the coalition treaty may not read overly ambitious on some EU matters. However, neither does it draw any red lines that could jeopardize a Conservative and Social Democrat coalition determined to seriously advance the integration of the EU in the fields of the single market, monetary union, security, defense and migration. On many issues, it leaves options open. The coalition agreement is a base to work on: It leaves room for stronger ambition and more far-reaching initiative and leadership. Germany will need to show all three if it is serious about achieving its European goals.

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