



SPECIAL REPORT

New government in Germany: keys to the European Union

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1. INTRODUCTION

Germany has a new government. After almost 3 months waiting, finally the formation of a new coalition Government between the Chancellor Angela Merkel's Christian Democratic Union (CDU), its Bavaria's allied party (CSU) and the Social Democratic Party (SPD) has been approved. Saturday evening, SPD's militants approved in a binding consultation the creation of a Government with CDU. On 17th of December, Angela Merkel was sworn in as Chancellor. More than 369,000 of around 475,000 party members participated in the process –which increase the participation of this novel initiative to 77%–, and 75,9% of them voted “yes” to a coalition government with Merkel's CDU and the Bavarian CSU.

The main winner of such post-electoral process is Sigmar Gabriel, SPD's president, who has steered this process, motivating his members and returning the hopes to a party that had been defeated at elections, when it has not achieved 26% of the electorate. Election results of September 22nd gave Angela Merkel an overwhelming majority, although it was insufficient to form a government. The defeat of FDP's liberals –which had been its ally in the former legislature and that now has been left out of the Bundestag– forced Merkel to negotiate with SPD in order to form the government. According to the polls, the majority of Germans wished a grand coalition, which encouraged Angela Merkel to open negotiations with the SPD.

The way is therefore opened to the formation of a grand-coalition government, for the third time in Germany's history and the second led by Merkel.

“The basis of this new government is the coalition agreement signed by the three parties, that is, the Koalitionsvertrag or GroKo, as it is called by Germans”

2. FOUNDATIONS FOR THE NEW GOVERNMENT

After signature in Parliament of the coalition agreement by the presidents of the three coalition parties, the investiture of Angela Merkel took place in the Bundestag, as well as the swearing in front of the German president, Joachim Gauck.

The announced Cabinet gives six departments to SPD, five (apart from the one to the Chancellor) to CDU and allows CSU to manage three ministries.

CDU

- Chancellery and Ministry of the Presidency
- Interior
- Treasury and Finances
- Defense
- Health
- Education, Science and Technology

SPD

- Ministry of Economy and Energy
- Foreign Affairs
- Justice and Consumer Protection
- Labor and Social Security
- Environment and Housing

- Family, Retirement, Women and Youth

CSU

- Transport and digital infrastructures
- Agriculture and Food
- Cooperation

The basis of this new government is the coalition agreement signed by the three parties, that is, the Koalitionsvertrag or GroKo, as it is called by Germans, chosen as word of the year in Germany.

Under the title “**Deutschland’s Zukunft gestalten**” (“Build the future of Germany”, in English), it is presented in a 185-page document which is expected to contain the main points of the new government’s policies.

Coalition agreement is built on 8 fundamental pillars.

1. Growth, innovation and prosperity
2. Full employment, good employment and social security
3. Sound finances
4. Social cohesion
5. Modern state, internal security and civil rights
6. A strong Europe

“The priorities of the new German government are focused on the development of its internal policy, leaving the European and international policy in the background”

7. Responsibility for the world

avoid any abuse in terms of job recruitment

8. Jurisdiction and functioning of the coalition

- Equality of opportunities thanks to education

In this report we present a summary of the most important issues with greater impact in the future of Germany and Europe.

- Infrastructures as Germany’s competitive advantage: strengthening through investment

We aim to bring the reader closer to the challenges that Germany is facing in the next legislature through two different blocks:

- Energy transition - strengthening through placement

1. Europe

- Broadband coverage at national level and development of WI-FI accesses

2. Germany

- Avoid poverty in old age

Nevertheless, we will start with the statements contained in the **preamble**, which clearly reflect the spirit of the agreement and set the priorities of this new government.

- Strengthening of territorial authorities: the future of financial relations between the State and the “Länder”

It is highlighted throughout the entire document the coalition’s commitment of maintaining the levels of prosperity already reached by Germany in the 21st century with the following statements, which can be read as the credo of this new government:

- Social cohesion and strengthening of civil rights

- Limit the indebtedness and stabilization of debt-to-GDP ratio

- Fight against crime and ensure security

- Improve competitiveness and increase of investments

- Strengthen and stabilize Europe - the future of Germany

- Regulation of financial markets: protection for the taxpayer and saver

- Take responsibilities for the peace and human rights in the world

- Minimum wage as a tool to

- Build the future of Germany

A review of these 15 points makes clear that the priorities of the new German government are focused on developing its internal policy, leaving the European and international policy in the background. In the following two chapters, the core perspectives are analyzed.

“As a Member State, Germany re-affirm its commitment to stability in Europe as well as its responsibility in the European integration process”

3. EUROPE: STRENGTHENING AND STABILITY IN EUROPE - GERMANY'S FUTURE

The coalition agreement makes clear the commitment of Germany with Europe and the Euro. In recent years, there were demands for a leading role and participation of Germany. A German government highlights for the first time in its road map the responsibility that Germany has as the powerhouse of Europe.

As a Member State, Germany re-affirm its commitment to stability in Europe as well as its responsibility in the European integration process. The new German government re-affirms the necessity of reducing national debts and enacting reforms in order to increase competitiveness and, it recognizes the need of combining such policy with sustainable investments. Coalition understands that policies combining structural reforms, ensuring more competitiveness and a strict fiscal consolidation by aiming for new investments are what it is needed to emerge from the crisis.

Nevertheless, the text agreed raises many questions concerning the work that is still to be done and the timing planned for it. Rather, the positions held by the former government in terms of European policy are maintained. Doubts rise mainly regarding the measures to face the crisis, whilst the demands

of continuing with austerity measures remain. It is noted the dependence of Member States on bank and public debts, although responsibility of each State for solving it is maintained. The German model -competitiveness through a weak internal demand- is thus Europeanising. For some critics, the grand coalition endangers the future of the monetary union. There is a lack of proposals that stimulates growth and employment policies.

Neither the debt problem is addressed, nor solutions to peripheral countries for raising the necessary additional money to cover old debts and rein in their budget deficit.

They bet on the creation of a supervisory authority for large banks and the introduction of a tax on bank transactions, which will be tailored to the amount and relevance of each one. Until then, national responsibility will be maintained. Additionally, it is agreed that taxpayers will be protected in the event of bankruptcy -at least in deposits up to €100,000-. Large banks will be funded by the ECB, whilst local and regional banks will be exempted from such control. The German government therefore maintains its strategy of leaving German saving banks outside the control of bank authorities.

There have been no major changes regarding debt pooling: the German government holds its position of maintaining budgetary accountability

“The national minimum wage of €8.5 per hour, required by SPD, will be passed in 2015, although social actors can agree a transitional period of two years”

in every country, which is incompatible with the intra-Community risk-taking.

Regarding the regulation of financial markets, the creation of stricter rules will be encouraged. “No market, product or financial actor without supervision”, as the agreement states.

4. GERMANY

The coalition agreement contains many points; the more relevant ones are listed here:

Energy: Maintaining the target of diversifying out nuclear power by 2022. Renewables energies must be between 55-60% of the total in 2030.

Employment: The national minimum wage of €8.5 per hour, required by SPD, will be passed in 2015, although social actors can agree a transitional period of two years. This has been one of the main axes when negotiating the contract between SPD, CDU and CSU. Without a clear perspective of possibilities for implementing it at federal level, an agreement would not have been reached. The creation of a Monitoring Committee, with capacity for operating as a regulatory authority, is agreed in response to business associations’ demands, which warn about the dangers of such decision with regard to competitiveness of certain sectors and the possible loss of employment.

Such commission will consist of employers’ associations and trade unions, and it will review this new system by mid-2017.

Pensions: Improvement of pensions for mothers of children born before 1992 and flexible retirements at 67 so that workers with 45 years of contribution can retire at the age of 63.

Implementation in 2017 of a “solidarity pension” expected to be of 850 euros per month.

Implementation of a pension for mothers of children born before 1992, called “Mütterrente”.

Tax policy: The commitment of pursuing the budgetary consolidation program, without the raise of taxes, is highlighted. There will be no new debt as of 2015.

Infrastructures: Increase of investment in transport infrastructures, education and science.

Adoption in 2014 of a toll system in German motorways aimed at foreign drivers. This was a CSU demand which should respect European rights and should not place any additional burdens on German drivers.

Dual nationality: Children of immigrants born in Germany can keep the German nationality and the one of their parents, as claimed by SPD. Up to now, they had to choose one of them before the age of 23.

“Critics point that Germany risks to come back to the pre-Schröder era”

5. CONCLUSION

The coalition agreement makes clear that the challenges that this new government must face are multiple and of great complexity.

Critics point that Germany risks coming back to the pre-Schröder era. Announced policies can endanger German business competitiveness and, consequently, thousands of jobs. The coalition agreement focuses too much on redistributing wealth, but not on creating it. From a purely economic perspective, Germany does not need more taxes, or a minimum wage, or an age for early retirement, or a bigger fiscal stimulus for developing infrastructures. They mainly seem measures of social or political nature, but the risks that they involve are not being considered, since the change on the pyramid of ages is a fact which will make losing competitiveness in the next few years by itself.

For its European allies, the coalition agreement opens many questions about the German government's road map. While it is true that the German government has a majority which would allow, in the event of exacerbating of the crisis, to take steps for even facilitating a constitutional reform, the message of the Great Coalition for its European partners is that Europe and the Euro are not a priority.

Problems that each country is facing are internal, thus Germany will not take action unless it is absolutely necessary.

As noted by the President of the Government of Spain in an interview for a German newspaper last week: “What particularly concerns me now is that Germany is clear about where we are going”. In the next few months doubts will be cleared up and we will be told the chosen path.

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