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**Germany's Coalition Agreement:  
A Step in the Right Direction, but Not Yet Out of the Woods**  
February 7, 2018

**KEY POINTS:**

- 1. While we may finally have a path forward to a new German government by April**, there is still no assurance that the coalition agreement so painfully negotiated between the conservatives of the Christian Democratic Union (CDU)/Christian Social Union (CSU) and the Social Democrats (SPD) will be approved by the SPD's rank and file, leaving the option of a second coalition-talks collapse a distinct possibility
- 2. Even if the proposed four-year government program is endorsed and results in a renewed grand coalition ("GroKo" in German), the new German government will take to the stage in a position of unusual weakness** both nationally and internationally
- 3. A GroKo "by default" may not be able to deliver on a Franco-German led plan to reform and more deeply integrate the Eurozone** to make the EU more competitive and more cohesive, both in its economics and its foreign policy.
- 4. A "nay" vote by the SPD's 460,000 registered party members remains a plausible scenario and would see Germany enter a period of major uncertainty** and setback the appointment of any new government by at least four to six months.

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**I. The proposed coalition agreement: a painful delivery that still needs to be confirmed**

Coalition talks between Chancellor Angela Merkel's conservatives and Martin Schulz's Social Democrats aimed at ending the political stalemate gripping Germany finally came through, having dragged on an extra two days beyond the self-imposed deadline of February 4. Germany has been ruled by a caretaker government since last September's inconclusive elections. While the CDU remained the largest force on the German political stage, the conservative party still recorded its worst result since the foundation of the Federal Republic in 1949, winning around 33% of the vote, down eight points from 2013. However, if the results were disappointing for the CDU, they were a disaster for the other

“grand coalition” party, the SPD. With 20.5% of the vote, SPD leader Martin Schulz led his party to its poorest showing in 68 years.

Merkel’s attempt to get out of her partnership with the SPD and form a new coalition with the Greens and Liberals broke down last November, forcing her to try reviving the grand coalition that governed Germany from 2013 to 2017.

Talks between the two political blocs were dogged by disagreements over labor law issues and healthcare policy. The phasing out of fixed-term job contracts affecting almost 3 million German workers, a majority of whom are under the age of 30, was at the heart of the labor discussions while the SPD pushed for sweeping changes to the country’s health insurance system, with a new structure that would close the gap between citizens with private and statutory insurance. Several other issues in the areas of foreign, defense, and financial policies also kept negotiations going in overtime.

The main points included in the final coalition agreement are:

- On immigration, a yearly cap of between 180,000 to 220,000 migrants allowed to settle in Germany
- A strong financial commitment to issues of importance to both parties: increased funding support for families with children, for police jobs for the CDU/CSU, investments in clinics and doctors in rural areas, investment into social and private housing construction for the SPD
- While keeping the budget balanced, more spending on infrastructure and social programs (€36 billion) as well as tax breaks for low and middle-income households (€10 billion)
- A €10 billion investment into high-speed broadband expansion
- A legally binding 2030 goal to cut emissions by 55% via savings in transport, agriculture, energy and buildings, supported by tax incentives or subsidies

The coalition agreement must now be put to a vote of the SPD’s 460,000 members for approval, a risky vote though the chances of the agreement being endorsed are high. In yet another twist, the German Constitutional Court announced on February 6 that it would consider the legality of the SPD putting the final coalition deal to a membership vote, having received five challenges to the process. The court already had to pronounce itself on a similar challenge following the last coalition agreement in 2013, when the court let the SPD go through with the vote on the basis that political parties are not public authorities against which a constitutional complaint can be lodged.

## **II. What next?**

The prospect of another grand coalition was already controversial within the SPD. Now the party will ultimately have to decide whether to support a renewed government pact with Merkel, or face the consequences of saying “no.” Many Social Democrats oppose a reconduction of the previous CDU-SPD grand coalition, blaming the party’s dismal performance in last year’s election on its role as junior partner to Merkel’s CDU/CSU during

the last four years. According to them, another grand coalition will further erode the party's waning popularity. Polls published last week would tend to support this vision, putting the SPD at just 17% — even worse than the 20.5% it garnered in the September elections and barely two points ahead of the far-right populist Alternative for Germany (AfD).

The real question for most Social Democrats will focus on whether the proposed government road map clearly bears an SPD stamp, or whether the SPD's negotiators got shortchanged by their conservative counterparts. **Schulz will need to show his base that he has made a difference and has obtained significant concessions from the CDU/CSU as the price for their entering the coalition again to get the party's membership to endorse the agreement.** He may be able to showcase that in light of the key portfolios that will be held by the SPD: the Vice-Chancellorship and Finance ministry, the Foreign Affairs ministry, as well as the Environment, Family, Justice and Labor portfolios.

This is only the second time that the SPD will hold such a vote. The first time, in 2013, over 75% of members voted in favor of the coalition agreement with the CDU/CSU. The outcome this time is far harder to predict, with members of the "Jusos," the SPD's youth wing, campaigning noisily for a "no" vote.

It will be a postal vote for SPD members, who will return a simple "yes" or "no." New members can vote as well, provided they joined the party before February 6. In fact, between its January party conference which greenlighted formal coalition talks with a narrow majority and the February 6 registration deadline, 25,000 new members have joined the SPD. It is unclear whether these new members are rather for or against a renewal of the grand coalition. **Results of the vote are not expected before early March, meaning that even if the SPD grassroots waves the coalition deal through, it is unlikely that a new government will be sworn in before late March or early April.**

**What if the SPD rank and file vote down the deal?** If the SPD membership ultimately vote against joining another GroKo, then Merkel could theoretically lead a minority government or try once again to form a coalition with the Greens and FDP. However, the most likely scenario would be snap elections — one most of Germany's political parties would rather avoid.

The ball would then be in President Frank-Walter Steinmeier's court. The path to new elections would be a complex and lengthy one, set out in the German constitution. The president would propose a candidate for chancellor for election by the Bundestag — likely to be Merkel, whose party garnered the most votes in September's election. She would only become chancellor if she received the support of an absolute majority of all MPs — 355 out of 709 — in the first round of voting. If she did not, several repeat votes would be held. In the last of these, the candidate with the largest number of votes would win. It would then be up to Steinmeier to decide within seven days whether to appoint that person as chancellor or to dissolve the Bundestag and call early elections. These would have to be held within 60 days of the dissolution of parliament. **Such an outcome would mean it would be unlikely to have a German government in place before September 2018 at the earliest, a full year after the last general elections.**

### III. A coalition “by default,” unlikely to deliver quickly on major political issues in Europe

Whatever the outcome, Merkel comes out of this lengthy coalition building period weakened. Her vaunted ability to forge a compromise didn't suffice to build a robust if new “Jamaica coalition” with the business-friendly Free Democrats and the Greens last autumn, and only fears of more abysmal electoral results and an even more intractable political situation should they go for new elections forced the CDU/CSU and the SPD into a renewed GroKo. The SPD is arguably weaker still, with current opinion polls showing support for the party and its leader, Martin Schulz, hitting record lows.

This also bodes ill for any major reform on the European level. The vision laid out for the future of Europe and the proposals made by French President Emmanuel Macron's in his Sorbonne speech last September, two days after the German elections, are unlikely to be answered quickly. While Merkel might be convinced following the euro crisis that Europe requires a major overhaul, her backbenchers and especially those from the CSU, are more skeptical. They are particularly wary of any steps that could bolster the AfD, a party born out of frustration over the perceived inability of Brussels to successfully address the Greek bailout and the 2016 immigration crisis.

Despite some of the rhetoric coming from Schulz such as the creation of a “United States of Europe” by 2025, both the CDU/CSU and the SPD are weary of opening a debate on many of the reform proposals recently floated around, by Macron, European Commission President Jean-Claude Juncker, or the Conservative party (PPE) in the European Parliament. While the German public looks positively on measures that would strengthen the external borders of the EU and help avoid a repeat of the migrant crisis, any reform that would have an impact on Germany's already hefty financial contribution to Europe or may be seen as imposing the profligate behavior of “Club Med Europe” upon virtuous Germans is politically very difficult.

It is in our view wishful thinking to expect partners that have had such difficulties coming together after four years in government suddenly agree on a substantial European agenda. In both Brussels and Paris, the announcement of a coalition agreement has been greeted with excitement. After months of nervous waiting, it looks as if Berlin is finally on track to pick up the baton of European reform. **However, on closer review, the GroKo's big plans for Europe look short on specifics, the platitudes about Europe perhaps hinting at something else: division.** If Germany's political leaders were serious about European reform, they would have engaged in a broad public debate during last year's campaign about the options on the table. However, the subject of Europe's future was hardly mentioned or debated during last autumn's elections. Another GroKo hence probably lacks a proper mandate to pursue an ambitious reform course. **The most Europe can probably hope for is incremental progress in reforming the eurozone, with some of the Macron proposals such as to outfit the eurozone with its own budget for investments managed by an “Eurozone finance minister” taken on board but no serious developments on the issue of debt mutualization.** Incremental progress in reforming the Eurozone rather than radical changes before the spring 2019 European Parliament elections and the resulting new Commission. Though this may not be the kind of

blockbuster changes some have called for, they would not necessarily be insignificant and would in the long run likely have popular German support because the economic arguments are compelling.

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