

Slow time ahead for decisions in Germany

Europe was waiting for Merkel, now it waits for the SPD

by Denis MacShane in London

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Now Germany awakes to the time of real decision. The voters gave Angela Merkel a wonderful election present on Sunday, but Christmas lasts only one day. She knows that a majority of votes went to left-of-centre parties. Her election triumph presages a time of doubt and difficulty in Germany.

The economic liberals in the Free Democratic Party (FDP) were booted out of parliament. The anti-euro Alternative party (AfD), like the internet libertarian Pirates, failed to enter the Bundestag.

Before the election, Europe's watchword was 'Waiting for Merkel'. Now she and her Christian Democratic Union (CDU) and Christian Social Union (CSU) conservatives have to wait for the special congress of the Social Democratic Party (SPD) on Friday. SPD members will decide whether to permit the party leaders to enter a Grand Coalition with the CDU/CSU. If the answer is 'Ja', tough negotiations will follow over the coalition's terms and programme.

The SPD may yet balk at the idea. They gaily entered a Grand Coalition with Merkel in 2005, only to be quickly swallowed up and spat out into opposition four years later. Many in the SPD think those four years vitiated the party's purpose. They do not want to repeat the experiment. The party has too many chiefs; Sigmar Gabriel is party leader, Peer Steinbrück was chancellor-candidate, Frank-Walter Steinmeier led the party in the Bundestag and was vice chancellor and foreign minister under Merkel between 2005 and 2009.

The SPD is unhappy about the labour market reforms associated with Gerhard Schröder, Merkel's predecessor as chancellor between 1998 and 2005. These liberalised the labour market by maximising flexibility, introducing low-pay insecure jobs and freezing industrial wages. The reforms suited German firms, helping Germany survive the financial crash and subsequent recession after 2008. But they led to significant loss of support for the SPD among its core industrial workers and modestly-paid public service electorate.

So if the SPD goes into a coalition with the CDU/CSU it will be on the basis of posts and policy. Instead of the now largely decorative foreign minister position in a Germany that has given up geopolitical ambitions and is content with a foreign policy along Swiss or Norwegian lines, the SPD will demand a top domestic and European Union policy slot such as economics or finance minister. The SPD's core belief is that 'Sozial' (social) is as important as 'Markt' (market) in the modern economy. The party will seek to secure minimum wage legislation and no dilution of the 'Mitbestimmung' (co-determination) model which places workers and trade union bosses on company boards.

Martin Schultz, the German social democrat president of the European Parliament, and possible European centre-left candidate as president of the European Commission, has declared that the price for the SPD to enter a coalition is relaxing Berlin's austerity ideology. Since 2009, under the eagle eye of the hardline finance minister, Wolfgang Schäuble, Berlin has refused to cut any slack for poorer euro area countries.

Instead Berlin has preferred to keep nations in a latter-day debtors' prison, even though much of the cheap euro finance in the early years of monetary union came from German banks. It is unclear how the SPD, which is orthodox in most economic and fiscal policy areas, will alter Berlin's euro policy. But change will come. Merkel has never shown much interest in classic liberal economics. The disappearance of the FDP deliberalises further German economic thinking.

At the end of July, Die Welt published my article 'Deutschland erlebt die Merkel-Dämmerung' – The Twilight of Angela – about why I thought Merkel's glory years were behind her. Those hoping for a radical new approach are likely to be disappointed. These include French socialist ministers who want to entice Germany into a new generosity and increase loans, credit and transfer payments to reboot the moribund euro area.

Germany is rich, yet Germans are not. They have paid a solidarity tax of 5.5% for 20 years to support the former East Germany. They are not about to pay a euro solidarity tax to suit Paris.

Germany will be flexible on new EU policies and even institutions – but only up to a point. The German constitutional court may say that a new EU treaty is needed to provide a legal basis for new European payments, rules and institutions. That would require referendums in many countries, notably France.

There is now plebiscite fatigue everywhere in Europe. President François Hollande will not risk a referendum before 2017, when he faces re-election. This is the year when Merkel, too, if she does not stand down after a decade at the top in 2015, has to go to the polls. Just a few days after her election victory, the voting timetable for the next four years looms large.

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