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## NEITHER EURO-DÄMMERUNG NOR GRAND BARGAIN: Implications of the German Elections for Spain

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**H**ardly any of the recent European elections has had such significance beyond national borders like the German one, yet Europe was strikingly absent from the German election campaign. Yet the victory of German Chancellor Angela Merkel might not be such bad news for the ongoing management of the Eurozone crisis if weighed against the alternatives, even though she is often framed as a dark knight of austerity in southern EU countries.

Germany's election was extraordinary dull even by German standards. The proposal of the Green Party to introduce a meat free veggie day in restaurants caused a major stir and the first question Merkel's challenger Peer Steinbrück was asked in a town hall meeting was what he intended to do about wrong-way drivers on German highways. In a world that felt the ongoing repercussions of a global financial crisis, mulled the question of going to war against Syria and had to face an unprecedented violation of constitutionally guaranteed privacy rights by the US secret service NSA this was slightly otherworldly. Yet it was telling of the German preference for keeping a low profile and indulge in *Gemütlichkeit*, an untranslatable expression that describes coziness and sociability at the same time.

It was the *Gemütlichkeit* preference that propelled Merkel to victory, who is now widely nicknamed "Mom" (Mutti). Her conservative party CDU knew how to harp on this theme. One campaign poster simply showed her hands forming a contemplative rhombus, suggesting that Germany's fate could be nothing but safe under her sober stewardship. The strategy has also been described as "asymmetric demobilization" and was first tried in Merkel's campaign in 2009: Controversial topics are avoided in favor of a vague message of conservative reliability with the goal of demobilizing the opponents' supporters more than one's own camp.

The strategy worked formidably on Sunday September 22<sup>nd</sup>, 2013. Merkel's ruling party missed a majority of seats only by a small margin and can comfortably chose whether to form a coalition with the Social Democrats (SPD) or, less likely, the Greens, as her Bavarian CSU partner Horst Seehofer has objected to this. The fourth party in parliament the Left (Die Linke) is not considered as a possible partner. Merkel's current coalition partner the liberal FDP suffered a crushing defeat and failed to make the 5 percent hurdle necessary to enter the parliament. The same is true for a newcomer party the Alternative for Germany (AfD), which ran on a ticket of fiscal conservatism and expulsion of weaker member countries

from the Eurozone. All other parties only received minor votes, among them the Pirates, a party that had a remarkable string of successes last year propagating radical basis democracy and anti-copyright cyber policies before imploding in petty internecine fights.

Merkel's CDU is thus the last remaining "people's party" (Volkspartei) that is able to bundle a large consensus on the center right. In contrast, the SPD that once held this position on the center left is only a shadow of its former self. Since the 1980s it has shed votes to the Greens and since the 1990s to the Left and its predecessors. In contrast to many other European countries Germany has not witnessed the rise of a radical rightwing party with a xenophobic message of exclusion. Merkel has managed to open her conservative party to new positions like liberal family policies, gay marriage and abandonment of nuclear power without alienating the party's fringes. Germany's relatively comfortable economic position has helped, too.

As the Eurozone is entering the fifth year of its crisis, austerity policies have little to show for. Fiscal cuts have weakened aggregate demand that has already been hit by the private sector crisis. In the absence of growth, public debt ratios have grown despite austerity. Austerity has been pain without gain as we have argued earlier. Because of her insistence on austerity programs, Merkel has been framed as a scapegoat for the ills of the Eurozone crisis. Yet this is unjust in several ways. The bursting of the Spanish housing bubble or fraudulent public accounting by Greek politicians were hardly her fault. By the stroke of a pen she cannot close the productivity gaps between EU countries that are ultimately at the heart of the Eurozone crisis. After much hemming and hewing she has supported bailout programs and in comparison to the hardline stances of other EU members like Finland and Slovakia, her rhetoric has been relatively benign.

With a public debt ratio of 82 percent Germany is well above the permissible Maastricht criteria too and its pockets are not as deep as commonly assumed. Its relative economic success has been partly achieved by an expansion of the low wage sector in the 2000s and as a result of a low home ownership rate (44%) the median net wealth of its citizens is less than a third of that in Spain and Italy. Against this backdrop bailout programs are difficult to sell for Merkel or any other German politician for that matter. A more realistic contribution might be a push back of austerity in Germany itself and an increase in wages. This in turn could provide additional demand for exports from southern EU countries that have gained competitiveness as a result of internal devaluations. Internal imbalances in the Eurozone would thus be reduced. Discussions about a minimum wage have in fact played a prominent role in the recent election campaign and were one of its more lively features.

After Merkel's victory one can expect more of the same steady muddling through in the Eurozone crisis as in the past. She will not embark on a more ambitious grand bargain that would include Eurobonds and a full banking union with mutual deposit guarantees. These are red lines for her that she is unlikely to cross. However, she has more leeway for pro-European policies now. Her new coalition partner, whether it will be the SPD or the Greens are more open to bailouts than her old one, the FDP, which is now out of parliament. The AfD with its message of Euro exit for southern member states has not made it beyond the five percent cut as well and it remains to be seen whether it can keep up momentum and establish itself as an alternative in the party landscape. In her third term Merkel will also develop awareness for her place in history books. She will not like to be remembered as the woman who brought down the Euro. Given unsustainable debt loads in some EU countries, she might opt for more favorable terms of bailout programs by stretching maturities and lowering interest rates. This would in fact mean debt mutualization via the backdoor and would offer a way out of the former promise to the German electorate that all bailout funds would be fully repayable and would not lead to asset loss. Yet this alone will not be enough to save the Euro. Such an endeavour will require more comprehensive policies.