



Germany's 2013 election: shaping the future?

RESEARCH PAPER 13/73 17 December 2013

Where is Germany – the most influential country in Europe – heading, under its new grand coalition government?

Following Germany's September 2013 elections, Chancellor Merkel returns for a third term in office, personally hugely popular and with her centre-right CDU/CSU's best result for years. But because her favoured coalition partners, the FDP, were ousted from the Bundestag for the first time, she has had to negotiate a grand coalition with the centre-left SPD. The coalition agreement includes SPD policies on some social issues such as a national minimum wage, but the CDU/CSU has kept its tax and eurozone policies. There is a high level of consensus between the coalition partners over foreign and defence policy.

What will the effect of the minimum wage be? What will Germany do if the eurozone crisis flares up again? Will Germany take a stronger lead in Europe or internationally? Will the grand coalition and/or Merkel see out their term of office, and how might the parties fare in the next elections in 2017?

Arabella Lang

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Summary

Chancellor Merkel wins: Germany's Chancellor since 2005, and popular for her cautious, diligent and modest approach, Angela Merkel led the centre-right CDU/CSU to an impressive victory in the federal elections on 22 September 2013. They gained 72 more seats than in 2009, giving them nearly enough for an outright majority. Unlike in other European countries, voters did not punish the incumbent government for its eurozone policies, and Merkel herself remains hugely popular. The centre-left SPD improved only slightly on their disastrous 2009 results, leaving them further behind the CDU/CSU than they have ever been. But the pro-business FDP, junior partners in the 2009-13 coalition, did not gain enough votes to enter the Bundestag, leaving them without a federal role for the first time since the Second World War. This left the left-wing Die Linke as the third force in the Bundestag, with the Greens just slightly behind. The 2013 Bundestag has a higher proportion of women and people from ethnic minorities than its predecessors; most deputies are still in their forties or fifties.

A new grand coalition: five seats short of an outright majority, and lacking her favoured coalition partners, Merkel had to negotiate her second grand coalition with the opposition SPD (preliminary talks with the Greens did not last long). Nearly three months after the elections, the new government took office under a coalition agreement that sees Germany shifting leftwards on some social issues, including a minimum wage and pensions, but retaining a policy of no new taxes, no increase in federal debt, and no eurozone debt-sharing. The SPD – despite having only 26% of the vote to the CDU/CSU's 41% – were in a strong negotiating position, having given their entire membership a veto on the agreement. The cabinet ministers include many familiar faces, with the new defence minister, Ursula von der Leyen, being the main surprise. This is Germany's third grand coalition since the Second World War, but in quite different circumstances.

The second chamber's power restricts the government: as well as being constrained by the coalition agreement, government policy could face opposition in Germany's second chamber, the Bundesrat. States (Länder) ruled by left-leaning parties hold the balance of power there until at least the summer of 2015, and can block about 30-40% of government legislation.

Germany's economy: the main economic proposal in the coalition agreement is the introduction of a national minimum wage, an election pledge of the SPD. Business leaders have been critical, citing the risk that German firms may become less competitive in international markets. The coalition agreement contains spending commitments of €23 billion (£19 billion) over the four-year term – small in relation to the size of the economy – including money for infrastructure investment and pensions. But there will be no new taxes, and the agreement also commits to reducing debt as a proportion of annual national income from 81% in 2012 to less than 70% by 2017. The agreement reaffirms the previous government's approach to the eurozone crisis, with tough conditions attached to any future bailouts.

Germany's place in the EU: Germany has historically been the key to Europe, and since re-unification it has been both the largest and the most influential country in the EU. The Franco-German alliance has been the so-called 'engine' of the European integration process. Successive German governments have taken a staunchly pro-Europe stance, while public opinion has strongly supported EU membership. Some things have changed in recent years. Germany and France are no longer as close, public support for the EU has fallen, and many outside Germany have been critical of Chancellor Merkel's role in tackling the eurozone crisis. However, there is no strong eurosceptic movement in Germany and the anti-euro AfD did not win seats in the new parliament.

UK-Germany relations: trade links are still vital: the UK imports more from Germany than from anywhere else, and exports more only to the US. Signs of a possible rapprochement on

EU integration seem to be receding, but recent allegations that the UK spied from its embassy in Berlin do not seem to have done lasting harm.

Germany's wider foreign policy: the Government has come under pressure from other EU leaders and the US to take a more active role in the world, including militarily. This raises questions that some, including many Germans, find uncomfortable, but the German government states in the agreement that it will be robust in assuming "its international responsibility for peace and freedom". German foreign policy, its handling of the euro crisis and international trade are unlikely to undergo major changes under the new grand coalition.

Germany's defence policy: relatively little is likely to change, although the grand coalition will seek to strengthen and deepen the EU's Common Foreign and Security Policy after the December 2013 summit. The coalition agreement confirms the Bundestag's role in authorising the deployment of German armed forces abroad but establishes a commission to look at this. The previous government's overhaul of the Bundeswehr, ending conscription and cutting troop numbers, will continue until 2017.

Energy and environment debates: Merkel's abrupt turn against nuclear power, combined with incentives to promote renewable energy, have caused energy prices to increase and the subject to stay controversial. The coalition agreement commits the government to Merkel's promised nuclear phase-out by 2022 and a transition to renewable energy, while some subsidies for renewables will be reduced.

What next for Germany? Some questions about Germany's future include:

- Will the new minimum wage boost average incomes, or cost jobs, or both?
- What will Germany do if the eurozone crisis flares up again?
- Will Germany take a stronger lead in Europe and internationally?
- How will the government fare without a strong parliamentary opposition?
- Will the coalition last?
- How long will Merkel stay in office?
- What will happen at the next elections?

1 Chancellor Merkel wins

1.1 CDU/CSU gained nearly enough seats for a majority

2013 was the best result for many years for Chancellor Angela Merkel's centre-right Christian Democratic Union (CDU) and its Bavarian sister party, the Christian Social Union (CSU). They performed even better than pre-election polls had suggested, nearly gaining an outright majority. But even at the time of her greatest strength, Chancellor Merkel lost her closest coalition partner, the Free Democratic Party (FDP), leaving her vulnerable to the demands of political opponents for a coalition. The only real option was partnership with the centre-left Social Democratic Party (SPD). The SPD, still sore at voters' rejection of them after the last time they governed with Merkel, were in a strong negotiating position despite a much smaller share of the vote.

Unlike other eurozone countries, German voters did not punish its leaders: quite the opposite. The CDU/CSU secured by far the highest number of votes in both the 'first' and 'second' votes in the 22 September elections to the 18th German Bundestag, giving it a large number of both constituency and party list MPs (there is an explanation of Germany's electoral system in the appendix to this paper):

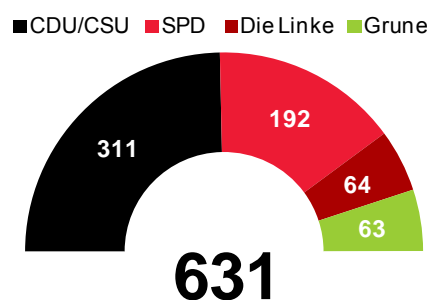
Final result of the Election to the German Bundestag 2013

	First vote		Second Vote	
	Number	%	Number	%
CDU/CSU	19,777,721	45.3	18,165,446	41.5
SPD	12,843,458	29.4	11,252,215	25.7
FDP	1,028,645	2.4	2,083,533	4.8
Die Linke	3,585,178	8.2	3,755,699	8.6
Grüne	3,180,299	7.3	3,694,057	8.4
AfD	810,915	1.9	2,056,985	4.7
Others	2,398,826	5.5	2,718,921	6.2
Total	43,625,042	100.0	43,726,856	100

Source: Federal Returning Officer, final results 2013

The CDU/CSU's second votes gave it 311 seats altogether in the Bundestag, which was an increase of 72 on the 2009 federal election. This made them just five seats short of an outright majority:

Distribution of seats in the Bundestag, 2013



Many German voters clearly supported Merkel's economic policies, and were drawn to her promise of calm continuity as well as her undramatic leadership style.

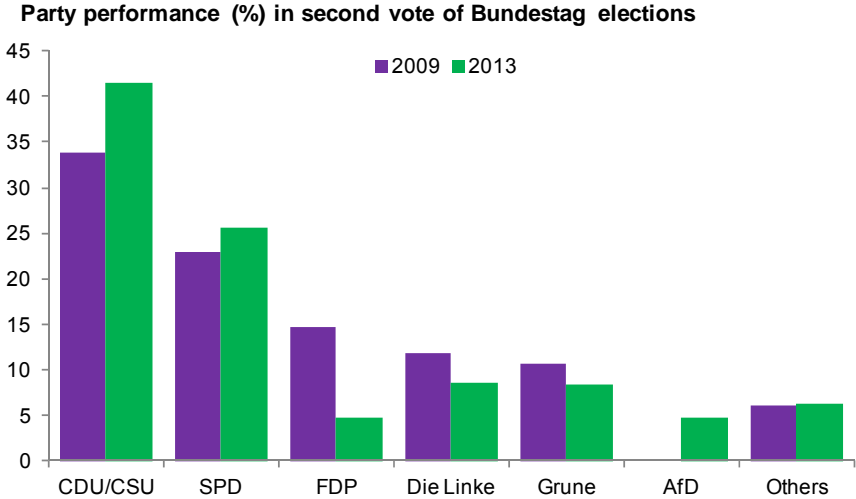
The CDU/CSU and the SPD were the only parties to increase their number of seats in the Bundestag in 2013:

Seat distribution in the Bundestag

	2009	2013	Change
CDU/CSU	239	311	72
SPD	146	193	47
FDP	93	0	-93
Die Linke	76	64	-12
Grüne	68	63	-5
Total	622	631	9

Source: Federal Returning Officer, final results 2013

The CDU/CSU's extra seats reflect an increase of 7.7 percentage points in second votes since 2009, to 41.5%. This was the party's best performance since 1990:



Who is Angela Merkel?

Angela Merkel is Germany's first female party leader and chancellor, as well as the first Easterner (though born in Hamburg) to lead Germany since unification and its youngest chancellor ever. Described as a "pragmatic survivor", she is also something of an outsider: a Protestant in a party still largely dominated by Catholics, yet not religious enough for those who want to emphasise the 'Christian' in the CDU; and a natural scientist in a parliament dominated by lawyers and managers.

Her steadfast, largely behind-the-scenes manoeuvring led her to take over as General Secretary of the CDU in 1998, denounce her original political sponsor Helmut Kohl in 1999, take over as party leader in 2000 and become the right's candidate for chancellor in 2005.

During her first term as Chancellor, she had little scope for 'chancellor rule' in a finely-balanced grand coalition. She appeared as a highly analytical, pragmatic and determined leader, yet adopted a cautious style that led her to adopt SPD positions on many key issues, or to shelve contested decisions altogether. Merkel tends not to rush deliberations and has a penchant for consensus-building. Reticence, discretion and reserve have often served her well, though they have also led to political isolation at times.

Merkel has achieved consistently high personal approval ratings – often over 80% – despite criticisms of her media style and apparent indecisiveness. According to Almut Möller, the type of politician that she represents – diligent, hard-working, responsible and modest – generally goes down well with the German public. Anne Applebaum argues that because she "provokes no jealousy, no anxiety and no fear, either in Germany or in Germany's immediate neighbourhood", Germany can be "the dominant power in Europe without anybody really noticing". Almut Möller suggests, however, that her East German upbringing could mean she does not understand when she is stretching German power too far.

She has been Forbes magazine's [most powerful woman in the world](#) for eight of the past ten years. Despite her reluctance to make a political issue of her gender, her behaviour is often assessed differently from a man's:

If Angela Merkel ... should seek a compromise, which would be called political talent in a man, the newspapers call her hesitant. If she gets her own way, she's called the iron lady whose path is littered with the corpses of her male opponents.

Some call her 'Mutti', even though (or perhaps because?) she has no children. This term, used with a mixture of fondness and respect, apparently evokes an idealised mother figure from the 1950s and 1960s – a mixed blessing for a woman whose role model is reportedly the Russian Empress Catherine II whose portrait hangs behind her desk.

Sources

Gisela Stuart, "Mutti knows best", *World Today*, Aug-Sep 2013

Ludger Helms, "The Grand Coalition: Precedents and Prospects", in Eric Langenbacher, ed, *Launching the Grand Coalition*, 2006, p49

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Anne Applebaum, "[Angela Merkel, the empress of Europe](#)", *Washington Post*, 23 September 2013

Dirk Kurbjuweit, "[Angela the Great or Just 'Mom?': Merkel's Dream of a Place in the History Books](#)", *Spiegel online*, 3 November 2009;

Andreas Rinke and Stephen Brown, "[Special Report: The two lives of Angela Merkel](#)", *Reuters*, 12 November 2010

1.2 SPD's second-worst result

Germany's Social Democratic Party (SPD) won only 26% of the second vote – its second worst result since the founding of the Federal Republic of Germany, and only slightly above its disastrous 23% in 2009. With 193 seats, Germany's main centre-left party is now 118 behind the CDU/CSU – the furthest it has ever been behind its centre-right rivals.

The SPD's 2009 drubbing had been due partly to its supporters feeling outmanoeuvred by the CDU/CSU in the 2005-09 grand coalition. But it was also connected with the radical labour-market reforms agreed by its former leader Gerhard Schröder when he was chancellor in 1998-2005. These had sent many on the left of the SPD to vote for Die Linke instead.

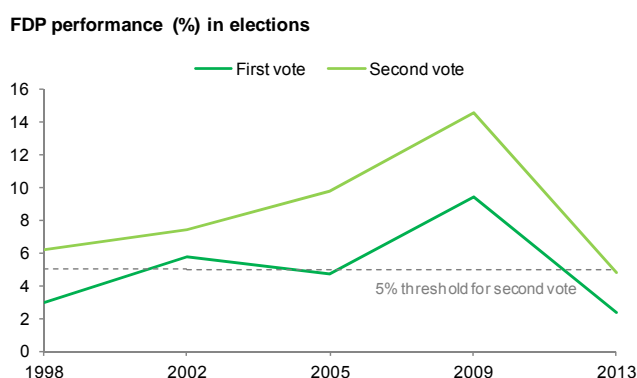
In 2013 it regained some of those votes, and possibly gained some from former FDP supporters. But it has not climbed back to the levels of support it had over the last 30 years or so, which were typically between 30% and 40%. This is despite four years in opposition, which would normally be rejuvenating, suggesting that there are deep issues for the party to resolve.

At a party conference in November 2013, the SPD re-elected Sigmar Gabriel and other senior politicians to lead them, but support for some was down.¹

1.3 FDP out of the Bundestag for first time since WWII

Whereas its coalition partners increased their vote, in 2013 the pro-business Free Democratic Party (FDP) failed dismally. It narrowly failed to pass the 5% threshold mark in the second vote that is needed to gain a seat in the Bundestag. This ended the FDP's role of kingmaker, which it has often held since the Second World War. From 1961 it had a pivotal role in the bipolar 'two-and-a-half party system', and from the late 1990s it made up the right-of-centre bloc with the CSU/CDU, pitted against the left-of-centre bloc of the SPD and Greens.² It has spent more time (as junior partner) in government than any other party.³

The chart below shows FDP performance since 1998:



With the exception of a fall in the first vote in 2005, the FDP had seen their share of the vote increasing, reaching its peak in 2009 when they were represented by 93 deputies in the Bundestag. 2013 is the first time in the party's history that they have not had a presence in the Bundestag.

¹ "SPD leaders re-elected at party convention, but with lower approval rates", *Deutsche Welle*, 15 November 2013

² Thomas Saalfeld, "Germany, Stability and Strategy in a Mixed-Member Proportional System", in Gallagher and Mitchell (eds), *The Politics of Electoral Systems*, 2005, p221

³ "Liberalism in Germany: Dead or just resting?", *Economist*, 14 December 2013

While many former FDP supporters probably voted for the CDU/CSU in 2013, there could also have been a surprising shift to Alternative for Germany (AfD), a party that is far more Eurosceptic and in favour of restricting immigration than the FDP. LSE research before the 2013 election suggested that almost 45% of former FDP voters were seriously considering voting for CDU/CSU, and a quarter for AfD. It also suggested that the FDP had a leadership problem: many of their core voters seemed to consider the leaders of three other parties more competent than the FDP's leader, Raïder Brüderle. Furthermore, the FDP appears to have lost support not just in one direction but amongst libertarian, conservative, and Eurosceptic voters, making it hard for it to develop a new platform that will allow it to regain the support it attracted in 2009.⁴

The *Telegraph* suggests the FDP's defeat could hold a lesson for Britain's Liberal Democrats, "blamed for not securing enough of their own agenda".⁵

The *Economist* argues that the FDP has squandered its reputation for freedom:

Whereas it used to preach freedom in all aspects of life, it became associated with only one topic: tax cuts. Worse, it did not deliver those, except to select groups such as hoteliers, who got a special break. A perception took hold that the FDP catered to rich people and favoured cliques and was otherwise cold, indifferent and unlikeable.⁶

In particular, it appears to have been given no credit for opposing the invasions of privacy disclosed in 2013.⁷

Following the FDP's defeat, it voted for a new leader, Christian Lindner, on 7 December 2013 at a special party conference. Lindner is trying to establish his party's independent credentials, criticising both its former partners the CDU/CSU, and its new rivals, the AfD.

1.4 Die Linke is the third force in parliament

Die Linke (the Left party) maintained a relatively strong showing with 64 seats. Despite losing 12 seats (down from 76 seats in 2009), this makes it the third-largest party in the Bundestag, and therefore the leader of the parliamentary opposition.

Founded by the former East German communist party and dissident SPD left-wingers, it gained seats in its first elections in 2005. It is often treated as a protest movement rather than a potential coalition partner, but its strong parliamentary position means that it can no longer be seen as a pariah. Indeed, at its November 2013 conference, the SPD ended its ban on possible coalitions with Die Linke if it drops its radical policies (such as withdrawing from NATO).⁸

Die Linke still gains the vast majority of its support from eastern Germany, where the FDP and the Greens have almost no presence. In the former East Germany, Die Linke, the SPD and the CDU have broadly similar levels of support.

1.5 Greens' share of vote decreased

The Green party went from 10.7% (2009) to 8.4% (2013) of the second vote. This lost it five seats in the Bundestag: it now has 63, compared with the 68 it gained in 2009.

⁴ "The polarisation of the German party system in the 2013 elections and the disappearance of the FDP explain the country's tortuous coalition negotiations", *LSE Europpe blog*, 7 November 2013

⁵ "Germany's Grand Coalition: the key players", *Telegraph*, 27 November 2013

⁶ "Liberalism in Germany: Dead or just resting?", *Economist*, 14 December 2013

⁷ "Liberalism in Germany: Dead or just resting?", *Economist*, 14 December 2013

⁸ "Fate of German coalition hinges on SPD referendum", *Financial Times*, 19 November 2013

Following the election, all of the party's leadership resigned. They had hoped to make the Greens the third party in the Bundestag and to form another centre-left coalition (they were in power with the SPD from 1998 to 2005).

Manfred Güllner, a leading German pollster, suggested that the main mistake was their decision to shift the focus away from their core issues – the environment, women and peace – and turn instead to social justice, which “remains the preserve of the SPD”.⁹ The Greens had called for a minimum wage and an increase in the top rate of tax.

The party faced other problems in 2013:

- Its proposal for a meat-free day every week, when public canteens would serve only vegetarian food, was widely ridiculed.
- Its anti-nuclear policy has already been adopted by Merkel.
- A 1980s pamphlet which appeared to encourage paedophilia was still being brought up in the 2013 elections.

The Greens chose new, younger, co-leaders in advance of coalition talks with the CDU/CSU: centrist Katrin Goering-Eckardt and left-winger Anton Hofreiter.

1.6 Other parties

A new anti-euro party, **Alternative for Germany** (AfD) came close to entering parliament with 4.7% of the second vote – only just behind the FDP's 4.8%. Formed in spring 2013, the AfD calls for an end to bailouts for failing economies. This would then mean those countries left the eurozone to northern Europe – failing which, Germany could return to the Deutschmark. But the AfD does not want Germany to leave the EU altogether.

The party has not encountered the kind of anti-EU populism that is found in some other European countries. Mario Monti, the former EU Commissioner who led Italy's unity government from 2011 to 2013, suggests that Merkel's cautious policies prevented the AfD from gaining more support: “a faster response to the crisis ... might easily have alienated German public opinion from the euro”.¹⁰

Support for the far-right **National Democratic Party** (NPD) fell slightly, from 1.5% to 1.3% of the vote. There have been fears in recent years, partly as a result of good regional showings, that the NPD would enter the Bundestag, but this prospect appears to have receded slightly since the mid 1990s. The Bundesrat is currently trying to have the NPD banned, in a case in the Constitutional Court which the government tacitly supports.¹¹ This would cut off its public funding. A previous case failed when the court ruled that evidence from paid informers was inadmissible.

1.7 Regional variation

The maps overleaf show the constituency results in the first vote of the federal elections in 2009 and 2013. In 2009, the SPD had strong support in the East of the country as did Die Linke. However, in 2013, the CDU/CSU overtook them in this area. The SPD retained some of their support in the west of the country in 2013.

⁹ “Worst policy ever? German 'Veggie Day' plan leaves Greens trailing”, *Guardian*, 13 September 2013

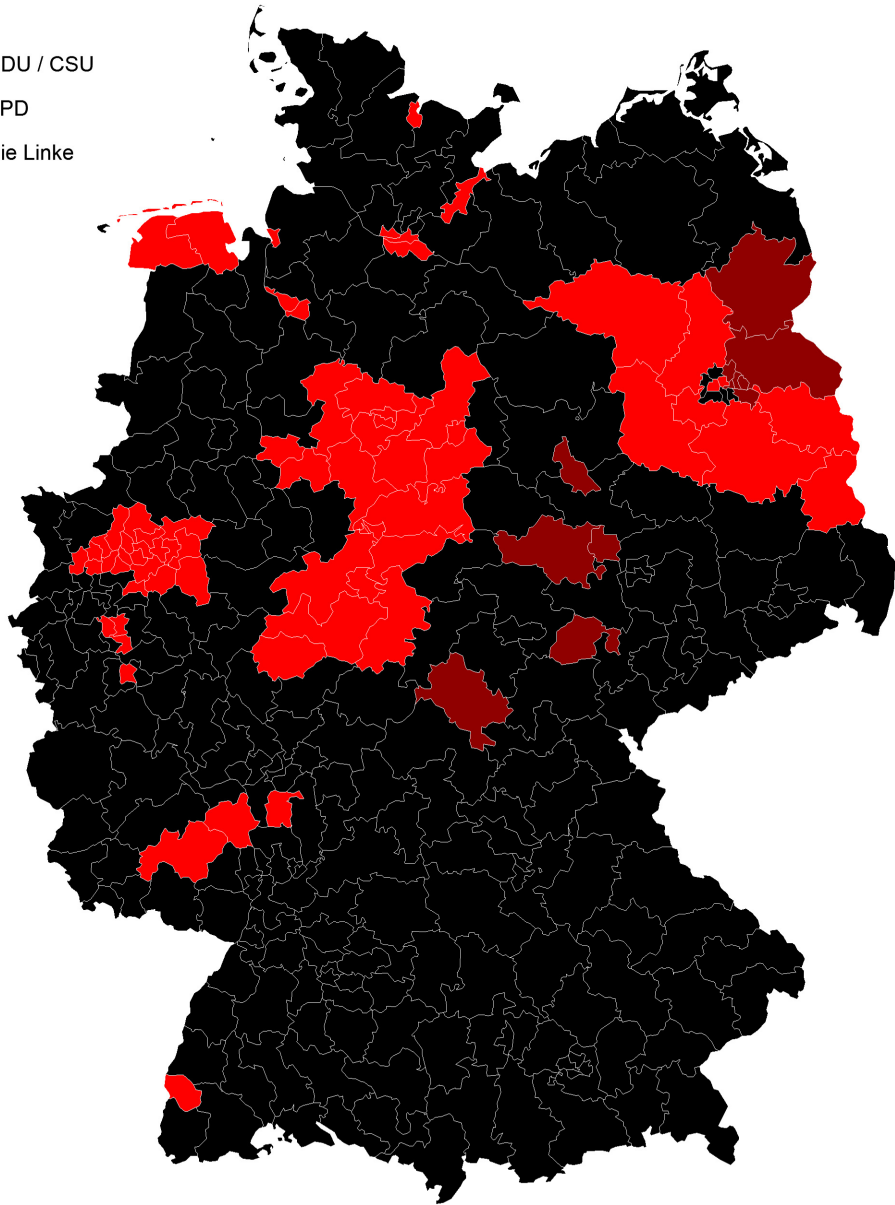
¹⁰ “Monti acknowledges Merkel's prudence”, *Financial Times* Brussels Blog, 21 November 2013

¹¹ “German upper house files lawsuit to ban neo-Nazi party”, *Financial Times*, 4 December 2013

2009 Constituency Results

Party

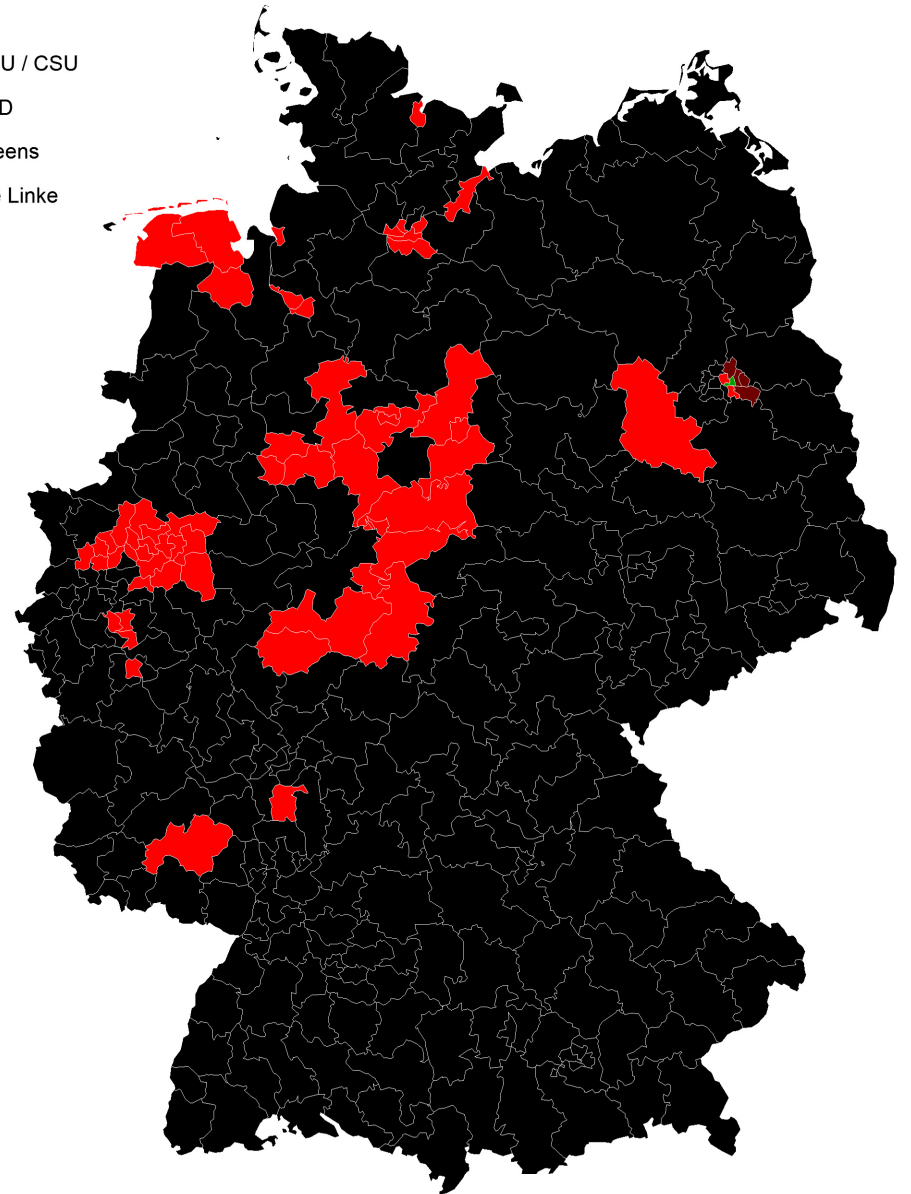
- CDU / CSU
- SPD
- Die Linke



2013 Constituency Results

Party

- CDU / CSU
- SPD
- Greens
- Die Linke



1.8 A more diverse Bundestag

Gender

Of the 631 deputies elected in the September 2013 election, 229 (36%) are women – a record for the Bundestag. There are 77 women CDU/CSU deputies, representing 25% of the party in the Bundestag, and the SPD have 81 (42%) women. Die Linke and the Greens have 36 and 35 women deputies – for both parties this represents 56% of their MPs in the Bundestag:

Party and Gender				
	Men		Women	
	Number	%	Number	%
■ CDU/CSU	234	75	77	25
■ SPD	112	58	81	42
■ The Left	28	44	36	56
■ Green	28	44	35	56
All	402	64	229	36

Source: Federal Returning Officer, final results 2013

Ethnicity

There were reportedly almost 100 parliamentary candidates with a migrant background attempting to win seats in the 18th Bundestag.¹² Of these, 37 were successful (6% of members in the Bundestag) – more than double the number in the 17th Bundestag:

Members with a migrant background				
	2009	2013	Change between '09 & '13	Proportion of total party members
	■ CDU/CSU	1	9	8
■ SPD	4	13	9	7%
■ The Left	6	8	2	13%
■ Green	6	7	1	11%
All	17	37	20	6%

Source:

[Media Service, more deputies with a migration background, sep 2013](#)

All the major parties had more members from a migrant background in 2013 than in 2009, with the SPD having the highest number.

Of the 631 members, eleven (1.8%) have roots in Turkey. Five of these members belong to the SPD, including one, Aydan Ozoguz, who will join the cabinet to take the highest office ever held in Germany by a woman from the country's three-million-strong Turkish community.¹³

Following the election, Germany also has its first black MPs: Karamba Diaby, a trained chemist who is originally from Senegal, and Charles Huber, who was previously a television actor and is a nephew of a former president of Senegal.

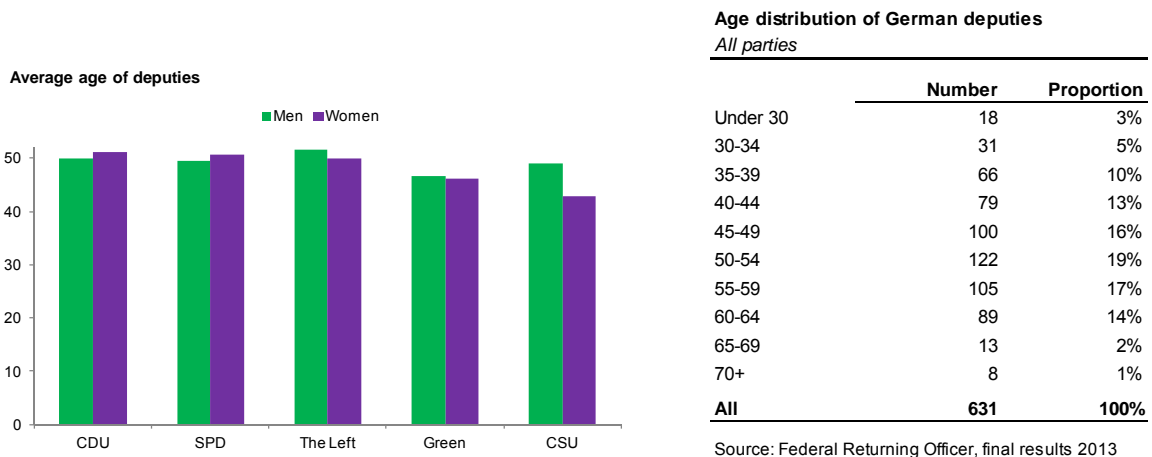
¹² "10 candidates of Turkish origin may enter Germany's parliament", *World Bulletin*, 21 September 2013

¹³ "Meet Merkel's new 'super cabinet'", *The Local.de*, 16 December 2013

The CDU also have their first Muslim deputy – Cemile Giousouf – who is the daughter of Turkish immigrants and was selected to contest the Hagen district where two fifths of the district have a migrant background. She did not win the district outright but her place on the party list was high enough for her to join the Bundestag.

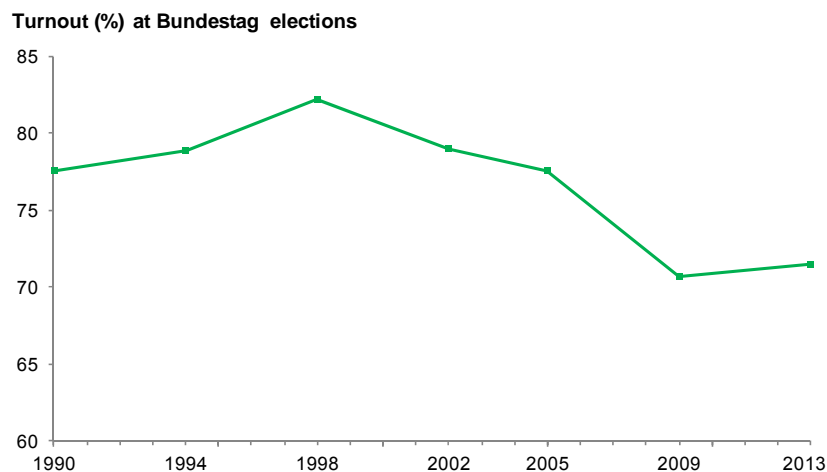
Age

The average age for all those elected in 2013 is 49 years and six months. The average age of women deputies is 49 years and five months compared to 49 years and seven months for male deputies. On average, women deputies in the CDU and SPD were slightly older than their male counterparts. The oldest deputy is 77 whilst the youngest is 26-year-old SPD deputy Mahmut Özdemir. Members aged between 45 and 59 make up 52% of the deputies in the Bundestag:



1.9 Voter turnout

Turnout in 2013 was 71.5%, an increase of 0.8 percentage points on 2009 (which had seen the lowest turnout since the end of the Second World War, at 70.7%). But this was still 10.7 percentage points lower than the 1998 peak of 82.2%:



Germany's voter turnout is still relatively high compared with some other countries in Europe, but there are worries that young people and those who are socially weak and less educated are not voting.¹⁴

¹⁴ "Why Germans are losing interest in politics", *Deutsche Welle*, 22 September 2013

Turnout is defined as the total number of valid votes as a proportion of the total electorate. Data on turnout can be affected by the extent to which the eligible population registers to vote: the proportion of the population of voting age that casts a vote is less than the proportion of those on the electoral register.

2 A new grand coalition

2.1 Electoral arithmetic

Despite its clear win, the CDU/CSU has only 311 of the Bundestag's 631 members, leaving it five short of a majority. The high number of members is because, on top of the 598 minimum, in this Bundestag there are 33 'overhang mandates' and 'balance' seats (see appendix). So 316 seats are currently needed for a majority.

The only realistic option for forming a government was a 'grand coalition' between the winning CDU/CSU and the SPD. But it leaves only Die Linke and the Greens as a weak parliamentary opposition.

Between them, the CDU/CSU and SPD have 504 seats, which could even give them enough votes to change some articles of Germany's constitution. Such changes need an absolute two-thirds majority of the Bundestag (currently 421 members), along with a simple two-thirds majority of the Bundesrat.

Various other coalition possibilities were discussed when the results came in, but came to nothing:

- **CDU/CSU-Green coalition.** The parties held two rounds of preliminary talks, but did not find enough common ground to work together at that point. Historically the parties have been far apart on tax, energy, Europe and social issues. But Merkel's decision to end nuclear power, and a new view of the Greens as fiscally responsible (they governed in coalition with the CDU in Hamburg from 2008 to 2010), meant that talks could have been more than just leverage for Merkel against the SPD.¹⁵
- **Left-wing coalition.** It is not unknown in Germany for losers to combine to form a government (for example the SPD and FDP in 1969) – but in this instance the SPD and Greens did not have enough seats on their own, and had ruled out joining with Die Linke.
- **Minority CDU/CSU government.** This has not been tried in post-war Germany, not least because the government has to be voted in by the majority of MPs.¹⁶

If no agreement was reached, Germany would have had to hold **fresh elections**, although it is unlikely that any of the main parties would have been in favour of that.

2.2 Negotiating a 'grand coalition'

During Germany's longest coalition negotiations since 1949, much of German and EU political life seemed to be on hold. And even after the agreement was announced in late November, there was a final hurdle before the new government could start work.

Formal negotiations began a month after the elections, on 23 October 2013. Chancellor Angela Merkel, the CSU's leader Horst Seehofer, and SPD chairman Sigmar Gabriel led the negotiations. They headed a 'small group' of 15 senior politicians and a 'large group' of over

¹⁵ "Germany's Greens elect new leaders before talks with Merkel", *Reuters*, 8 October 2013

¹⁶ German basic law, art. 62

70 coalition negotiators from the three parties. 12 working groups reported on specific topics. Proposals went back to each party's executive committee before they could be agreed.

SPD party members were very hesitant about another grand coalition, given the terrible defeat it suffered after its last grand coalition under Merkel (the party got its worst ever election result in 2009 – although poor results are not unusual for junior coalition partners). The SPD's candidate for chancellor in 2013, Peer Steinbrück, had ruled out being part of a grand coalition. Those who supported one, such as the Hamburg mayor, Olaf Schulz, saw their support drop. The party's leader, Sigmar Gabriel, also suffered: in an uncontested vote for party leader at its November 2013 conference, his support dropped from 92% in 2011 to 84%.¹⁷

But despite this, and the SPD's low share of the vote (26% compared with the CDU/CSU's 41%), SPD negotiators were in a strong position: no other coalition was likely, its members were in no mood for compromise, and they were given a vote on the final coalition agreement. Sigmar Gabriel promised a "good" coalition agreement or none at all, declaring that "to keep the SPD together is more important than to govern".¹⁸

In the early hours of 27 November, after five weeks of negotiation, the parties published a detailed 185-page 'preliminary' coalition document, *Shaping Germany's Future*. Previous coalition documents have been similarly long and detailed, taking much longer to negotiate than the UK's 32-page coalition agreement in 2010.

What has been agreed?

- The CDU kept their commitment to **no new taxes, no increase in federal debt** from 2015, and **no mutualisation of eurozone countries' debts**. Merkel's **improved pensions for mothers** boost her social justice credentials. The CSU won a **motorway tax for foreign vehicles**, but it is not clear how this would be implemented under EU law.
- The SPD's most eye-catching win was a **national minimum wage** of €8.50 an hour (phased in from 2015) – something which Merkel had opposed. They also secured **pension concessions** (full retirement will be available at age 63 after at least 45 working years, despite the general increase in the standard pension age from 65 to 67), **dual citizenship** for German-born children with foreign parents, and a **30% quota for women on company boards**.

What happened to the government during negotiations?

While the parties were discussing possible coalitions, the previous government carried on as caretakers with limited powers. This led to some odd situations, such as the FDP's Guido Westerwelle as foreign minister helping negotiate Iran's nuclear deal in Geneva despite having lost office – and his parliamentary seat – two months earlier.

Without a government, the Bundestag also had little to do. It met on 22 October, the last possible date allowed by the constitution, exactly a month after the national polls. The Greens then called a special session on 18 November to debate the NSA's eavesdropping programmes, which included listening in to Merkel's mobile phone. Merkel took advantage of the plenary session to make a government policy statement concerning the recent EU summit in Vilnius. But otherwise very little happened either in the Bundestag plenary or in its committees.

See "[Parliament-in-waiting as coalition talks inch on](#)", *Deutsche Welle*, 21 November 2013

¹⁷ "Fate of German coalition hinges on SPD referendum", *Financial Times*, 19 November 2013

¹⁸ "Fate of German coalition hinges on SPD referendum", *Financial Times*, 19 November 2013

- **Renewable energy** should make up between 55% and 60% of electricity supply by 2030 – more than the CDU/CSU wanted, and less than the SPD was aiming at.
- There will be a push for a **financial transaction tax** covering shares, bonds, investment funds, currency trades and derivatives.
- **Temporary work** and **rents** will be more tightly controlled.
- **Investment in research** will be supported by 3% of GDP.

Many of the more difficult points, such as how the federal government and the states regulate their finances, have been passed off to future commissions.¹⁹ Other issues did not make it into the agreement:

- There is nothing on tackling the **costs of welfare**.
- The SPD wanted to abolish the **retention of data** and introduce a **wealth tax**, and also **extend dual citizenship** to all Germans of foreign origin.
- The SPD did little to push for a more generous approach to troubled eurozone countries and a softening of Merkel's **austerity** approach.
- The SPD and CSU had called for **referendums** on major issues, but this was rejected by the CDU.

But there was a final hurdle before this agreement could be implemented. The SPD had given its whole membership an unprecedented final say over a coalition agreement. Its postal vote, which required a minimum of 20% of the party's 470,000 members (94,000 people) to be valid, did not arrive until 14 December 2013. A clear majority of SPD members – 280,000, or 76% of the 78% who voted – approved the agreement.²⁰

The new government is therefore expected to be voted in by the Bundestag on 17 December 2013 – nearly three months after the elections.

There had been speculation that if, say, only 40% of SPD members had cast their votes, 100,000 opponents of the agreement could kill it. SPD leaders were confident that it would be passed, but many party members were reportedly reluctant to endorse a deal that would not give enough priority to social justice for them.²¹ If the vote had been lost, this could have triggered new elections, which the SPD would have been unlikely to benefit from as they would have been blamed for causing them.

The CDU/CSU were not given a similar vote on the coalition agreement. At a special 'small conference' on 9 December, CDU delegates backed the agreement, although two of the party's economic leaders abstained.²² The CSU had already approved it.

2.3 Government ministers

Merkel's new cabinet includes many familiar faces. The CDU's Wolfgang Schäuble – "a tough negotiator and a safe pair of hands" – has kept the finance ministry despite attempts by the SPD to gain this pivotal post. The foreign ministry – held by the FDP in the last cabinet

¹⁹ "Coalition talks near their final round", *Deutsche Welle*, 22 November 2013

²⁰ "Germany: Social Democrats back 'grand coalition' with Merkel", *BBC news online*, 14 December 2013

²¹ See also "Fate of German coalition hinges on SPD referendum", *Financial Times*, 19 November 2013

²² "CDU convention approves coalition agreement with SPD", *Deutsche Welle*, 9 December 2013

– has gone to Frank-Walter Steinmeier (SPD), who led his party's team in the foreign affairs working group for the coalition negotiations. He was foreign minister in the last grand coalition under Merkel, from 2005 to 2009.²³

Germany's vice chancellor is, as usual, the leader of the junior coalition partner – in this case Sigmar Gabriel, head of the SPD. In recent years the vice-chancellor has also often held a pivotal ministerial role such as finance minister or foreign minister. Gabriel is instead in charge of a new 'super-ministry' as economy and energy minister, and will supervise Germany's transition from nuclear to renewable energy and possible changes to its pro-green energy policies.²⁴

The surprise is the new Defence Minister: Ursula von der Leyen (CDU), who has been family minister and then labour minister under Merkel. She becomes Germany's first female Defence Minister. Her promotion has prompted speculation that she could succeed Dr Merkel as leader of the CDU.²⁵

Ms von der Leyen's predecessor, Thomas de Maizière, returns to the interior ministry.

The new labour minister, who will share responsibility introducing the new national minimum wage, is the SPD's general secretary, Angela Nahles. She will be supported by Jörg Asmussen (also SPD), who is described as "one of the most influential members of the European Central Bank's governing council who has been central to Frankfurt's role in sorting out the eurozone crisis".²⁶

One of the SPD's deputy leaders, Aydan Ozoguz, will become state minister for immigration, refugees and integration – the highest office ever held in Germany by a woman from the country's large Turkish community.²⁷

Altogether the CDU has seven posts, including the chancellor and the (separate) head of the chancellery and the CSU has three. The SPD has six ministers, half of whom are women. The announcement of who would be in the cabinet was delayed until after the SPD vote on the coalition agreement, so that so that the vote would be decided on policies rather than personalities.

2.4 Reactions to the coalition agreement

According to a poll conducted by one of the state broadcasters, ZDF,²⁸ half of Germans are satisfied at having a grand coalition. Over half – including around two thirds of both CDU and SPD supporters – are also happy with what the coalition agreement says, although there is considerable doubt over how it will be financed:

- 82% favour a national minimum wage
- 68% support a motorway toll
- 56% endorse dual citizenship for children born in Germany to foreign parents
- A vast majority are in favour of the pension proposals, but nearly half fear the financial impact of these on the younger generation
- 79% doubt that the plans can be brought in without new debt or tax increases
- 67% would have liked to see debt reduction play a bigger role in the coalition negotiations

²³ See "Germany's Grand Coalition: the key players", *Telegraph*, 27 November 2013; "Merkel's ex-foreign minister returns to role", *The Local.de*, 15 December 2013

²⁴ "Merkel cabinet choice set to restart debate on successor", *Financial Times*, 15 December 2013

²⁵ "Merkel cabinet choice set to restart debate on successor", *Financial Times*, 15 December 2013

²⁶ "ECB official Asmussen quits to serve in German coalition", *Financial Times*, 15 December 2013

²⁷ "Meet Merkel's new 'super cabinet'", *The Local.de*, 16 December 2013

²⁸ "Große Koalition: Mehrheit ist zufrieden mit Vereinbarungen", *Politbarometer*, 29 November 2013

Predictably, the conservative media in Germany were strongly critical of the social entitlements in the deal. *Frankfurter Allgemeine Zeitung* argued that the costs of the minimum wage, extra money for older mothers' retirement and dual citizenship would weigh on future generations. *Die Welt* felt that in with its decision to fatten up its welfare state, Germany could no longer serve as a model to Europe.

Those on the left saw the other side. *Die Tageszeitung* welcomed the minimum wage as a weapon against exploitation, describing the agreement as a "manual for repairing the damaged fabric of society". The *Sueddeutsche Zeitung* said "the pact was not perfect but ... the SPD ought to back it: "You can't expect more from a grand coalition than small steps. But is it worth rejecting? Surely not".²⁹

A *Spiegel Online* leader regretted that there were no plans for a full banking union.³⁰

The *Financial Times* regards it as "not so much a programme for government as an assortment of overtures to favoured interest groups", with little to help fix the structural flaws in the German economy.³¹ It reports that employers' groups have accused the coalition of spurning the opportunity to promote growth-boosting policies.³²

The *Telegraph* felt that increasing state spending by billions of euros was a strange signal to send to countries that Germany has asked to cut budgets. For instance, it argued that Merkel's moral authority will be damaged by allowing people who have worked for 45 years to retire at the age of 63, when she had repeatedly criticised other countries for allowing people to retire below the age of 67 because it adds to public debt in the eurozone. And it suggested that the national minimum wage was "unlikely to improve the low wage costs which Mrs Merkel has trumpeted as the secret to Germany's competitiveness and a model for the rest of the eurozone".³³

Philip Oltermann in the *Guardian* suggests that the agreement "reflects the priorities of an ageing nation", rewarding the elderly at the expense of the young. More broadly, he considered that the left mostly got its way on social issues, whereas the conservatives "barely had to compromise on any of the more fundamental questions around healthcare, tax rises or Europe".³⁴

2.5 Germany's coalition habit

Germany's political system lends itself to coalition governments, both centrally and regionally. But despite often close cooperation between the main parties, grand coalitions are rare at the highest level.

All Germany's post-war federal governments have been coalitions. Since 1961 these have all been one of four combinations (see table below):

- CDU/CSU and FDP
- SPD and FDP
- SPD and Greens
- CDU/CSU and SPD.

²⁹ Quoted in "[Deal reached on new government for Germany under Merkel](#)", *BBC news online*, 27 November 2013

³⁰ "[Germany can no longer serve as an example to Europe](#)", *Presseurop*, 28 November 2013

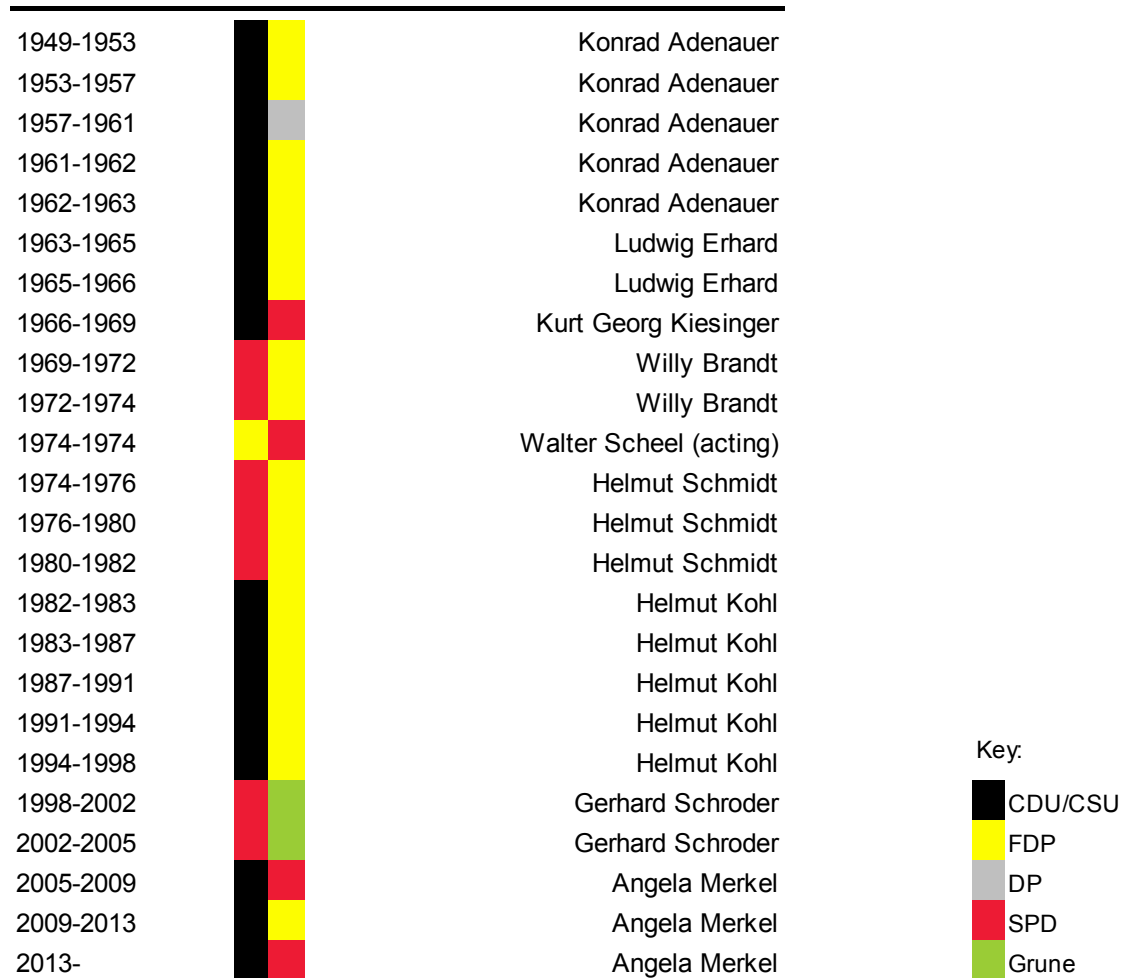
³¹ "Muted hopes for Merkel's third act", *Financial Times*, 27 November 2013

³² "Business chiefs turn on Merkel", *Financial Times*, 30 November 2013

³³ "[German 'grand coalition' constrains instincts of Angela Merkel](#)", *Telegraph*, 27 November 2013

³⁴ "[Germany's grey manifesto is more old than bold](#)", *Guardian*, 27 November 2013. See also "[Germany: not yet the real deal](#)", *Guardian*, 28 November 2013

But in contrast to Austria and Switzerland, before 2005 there was only one short experiment with a grand coalition at that level: in 1966-69, after the previous CDU/CSU-FDP coalition broke down. On the other hand, many of the Länder have experienced grand coalitions, or even all-party governments.



The 2013 grand coalition is very different from that formed in 2005. Although both were agreed immediately after federal elections, the 2005 elections were held a year early, following a loss of support for Chancellor Gerhard Schröder's SPD-Green coalition. The two main parties had gained almost equal results: 34.2% for the SPD and 35.2% for the CDU/CSU (one of their worst results since the Second World War), which meant that the SPD gained eight ministries to the CDU/CSU's seven (plus the Chancellor). The lengthy coalition agreement in 2005 (nearly 200 pages) had to be ratified by special party conferences of both partners, and clearly showed how little room for manoeuvre Merkel had. It included a 'coalition committee' with monthly meetings, but the SPD ministers also held their own weekly meetings before cabinet meetings. After this grand coalition, the SPD haemorrhaged support, and all three of the 'small' parties achieved their best ever results in a federal election: the FDP 14.6%, the Greens 10.7%, and the Left Party 11.9%.

The 1966-69 grand coalition was not a notable success, and is mainly remembered for an increase in support for extremist parties in parliamentary elections, and an increase in extra-parliamentary opposition.³⁵ It was followed by the SPD's first post-war electoral triumph,

³⁵ Ludger Helms, "The Grand Coalition: Precedents and Prospects", in Eric Langenbacher, ed, *Launching the Grand S*, 2006, p49 at 50

gaining enough votes to govern with the FDP despite the CDU/CSU remaining the largest bloc in the Bundestag.

3 The second chamber's power restricts the government

Germany's 'vertical checks and balances' mean that the [Bundesrat](#), Germany's second chamber, can make it hard for federal governments to make major policy changes.

The Bundesrat is made up of 69 representatives of Germany's 16 regional state (Land) governments – usually their state cabinets (Minister-Presidents and ministers). It has a role similar to that of an upper house, and can introduce and block some legislation. The individual Bundesrat members do not have a free mandate: each federal state must cast all its votes (between three and six votes depending on the population size) as a block in the Bundesrat.

Following a series of defeats in regional elections, the last federal government lost the balance of power in the Bundesrat. States ruled by left-leaning parties (without the CDU/CSU as coalition partner) now control 36 out of 69 votes in the Bundesrat.³⁶

The balance of power in the Bundesrat is important because this chamber can veto federal legislation that affects the Länder. Such legislation (known as 'consent bills') now makes up about 30-40% of all federal legislation (down from 60%).³⁷ This can make it hard for federal governments to make changes that are as major as they might like. The Bundesrat can also suspend other legislation ('objection bills').

³⁶ See Bundesrat, [Distribution of votes](#), accessed 2 December 2013

³⁷ Federalism reforms came into force on 1 September 2006

Recent examples of the Bundesrat blocking proposed legislation

In December 2012 and March 2013 the Bundesrat twice blocked the government's proposed legislation on the fiscal compact, which aimed to oblige Germany's 16 Länder to adjust their spending programmes to help the nation balance its budget in perpetuity from 2015. In June 2013, Finance Minister Wolfgang Schäuble reportedly got the Bundesrat's consent to the Bill by offering the Länder favourable flood-aid terms.

In November 2012 the Bundesrat blocked a Swiss-German tax treaty. The treaty was negotiated by Schäuble, and aimed to ensure that capital gains received by German taxpayers with accounts held in Switzerland were treated in the same way as those realised in Germany. It also provided for a 50% tax on inheritances in Switzerland unless German residents opted to declare their inheritance to the German tax authorities; and a retrospective tax on hitherto undeclared and untaxed assets held by German taxpayers in Switzerland. The German opposition parties said that the agreement was too lenient on tax evaders and contained too many loopholes. The legislative mediation committee was unable to reach an agreement.

In 2010 the Bundesrat blocked proposals to raise basic welfare benefit rates by €5 to €365 per month and create other non-cash benefits. The change was intended to comply with a court ruling that the terminology and payment system for welfare benefits was too confusing and had to be changed by the end of the year. The proposal then went to the legislative mediation committee for negotiations, and was eventually passed in February 2011 with amendments including a new minimum wage for temporary workers.

Sources

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"Schaeuble Removes States' Fiscal Compact Veto With Flood Fund", *Bloomberg*, 19 June 2013

"Opposition Opposed: German-Swiss Tax Evasion Deal Blocked in Berlin", *Spiegel online*, 23 November 2012

"German-Swiss tax deal sinks at last-ditch meeting", Swiss Broadcasting Corporation, 12 December 2012

"Bundesrat blocks welfare changes", *The Local.de*, 17 November 2010

"Bundesrat passes Hartz IV welfare reforms", *The Local.de*, 25 February 2011

4 Germany's economy

4.1 Introduction

Germany's geographic position in the centre of Europe is mirrored in its economic status as "an anchor of stability in Europe".³⁸ The German economy is Europe's largest and the fifth largest in the world, around a third bigger than the UK's. A large export sector specialises in cars, machinery and chemicals. But despite its strong performance in the post-recession period, the economy faces the long-term demographic challenges of an ageing population.

The main economic proposal in the coalition agreement is the **introduction of a national minimum wage of €8.50 per hour** (£7.10) phased in from January 2015. This was a key election pledge of the SPD aimed at protecting low-paid workers, such as the nearly 5 million employees whose only job pays less than €450 per month (£375). Business leaders have been critical, however, citing the risk that German firms may become less competitive in international markets, undermining the export sector - the economy's principal engine of growth.

The coalition agreement contains **spending commitments of €23 billion** (£19 billion) over the four-year term, including money for infrastructure investment, additional pension payments some older parents (a CDU policy) and a lowering of the pension age from 67 to 63 for those who have worked 45 years (a SDP policy). Despite these proposals, which are small in relation to the size of the economy, there will be **no new taxes**, which was a key CDU/CSU election policy. The agreement also commits to **reducing debt** as a proportion of annual national income from 81% in 2012 to less than 70% by 2017.

4.2 Overview of history and recent performance

In the decades following the Second World War, West Germany experienced decades of strong growth: the *Wirtschaftswunder*, or economic miracle. Structural problems began to build in the 1970s and 1980s with the decline of the industrial sector and the expansion of the social security system. After reunification, the 1990s and early 2000s saw sluggish growth and rising unemployment. At this point, Germany's economy was regarded by many as the "sick man of Europe".³⁹

The SPD-Green coalition government led by Chancellor Schroeder made a series of structural changes, known as the Hartz reforms, between 2002 and 2005.⁴⁰ These reduced the generosity of the social security system, for example by cutting unemployment benefits for many long-term claimants, and expanding the tax advantages of low-paying jobs, so-called "mini-jobs" (see section 4.3 below for more on the reforms).

In addition to these reforms, businesses and trade unions co-operated to restrain wages – limiting growth in employees' earnings – in order for German firms to become more competitive internationally. In contrast, many other European countries saw their labour costs rise.

Initially, as the reforms worked their way through parliament and wage rises were minimal, the economy continued to perform poorly. Consumer spending was stagnant as unemployment remained high and incomes were squeezed.

³⁸ IMF staff report for article IV consultation with Germany [PDF], August 2013

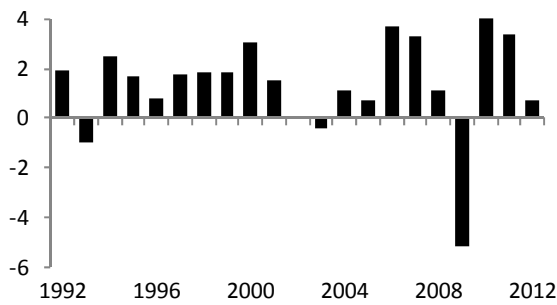
³⁹ See for example: "The sick man of the euro", *The Economist*, 3 June 1999

⁴⁰ Named after Peter Hartz, personnel director at Volkswagen who headed the commission set up by the government to look into labour reform. Its recommendations formed the basis for the reform legislation.

From the mid-2000s, the export sector began to grow significantly and the unemployment rate began to fall. The competitiveness drive was paying dividends, with the industrial sector reaping the benefits. The boost in exports, further supported by rapidly expanding emerging economies, underpinned a period of stronger economic growth, despite domestic consumption remaining subdued.⁴¹ The combination of growth and welfare reforms resulted in the unemployment rate falling from a high of 11.5% in 2005 to 7.1% in 2008, just before the global financial crisis struck:

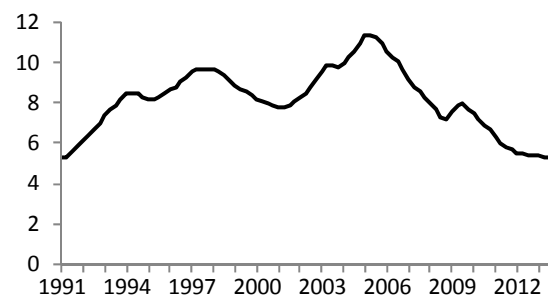
GDP growth

Annual % change, OECD data



Unemployment rate (%)

Quarterly data, OECD data

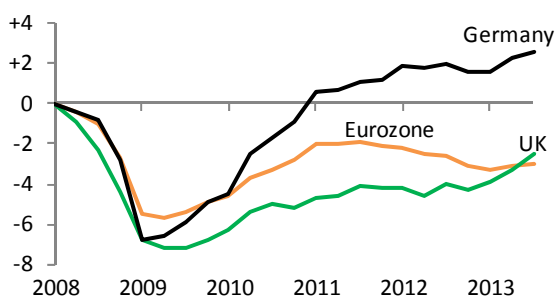


Unlike a number of other large economies, the recession in Germany was not preceded by a credit bubble (although its financial sector did own some toxic assets). Instead, it was the collapse in world trade flows that led to a deep recession, with GDP contracting by 6.8% by the beginning of 2009.

The recession was short-lived and the economy recovered strongly: GDP growth was 3.9% in 2010 and 3.4% in 2011. By the first quarter of 2011, GDP was back to its pre-recession level; in the UK, GDP is still below pre-recession levels (see chart below). Unemployment increased only slightly during the recession and then promptly continued its downward trend. From being above the eurozone average before the recession, the German unemployment rate is now well below it at around 5%, compared with 12%:

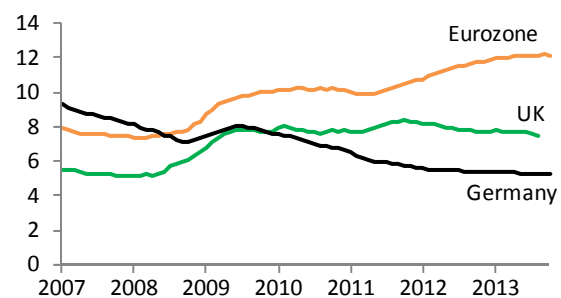
GDP since pre-recession peak of Q1 2008

% change from Q1 2008, quarterly OECD data



Unemployment rate (%)

Monthly data, OECD data



The debt crisis and subsequent severe recession in the eurozone periphery led to a double-dip recession in the eurozone between late 2011 and mid 2013. This resulted in a slowdown of export growth and more sluggish economic expansion over the past two years. The IMF's forecast for GDP growth in 2013 is 0.5%.

The stabilisation of the eurozone debt crisis and the improved prospects for the currency area – in the short term at least – support the majority of economists' expectations that

⁴¹ GDP grew by 3.7% in 2006 and 3.3% in 2007 compared with average annual growth of 0.4% between 2002 and 2005 (OECD data).

German growth will accelerate modestly in 2014. The IMF forecasts GDP growth of 1.4% in 2014 and 2015.

The election campaign's economic issues included low-paid jobs, income inequality and fiscal policy. Other issues, such as how to deal with the ongoing eurozone crisis and the long-term demographic challenges facing the economy were not as high on the agenda, but are crucial to the prospects of the economy.

4.3 Labour market reforms and a minimum wage

As outlined above, the structural reforms of the labour market and social security system of 2002 to 2005 have been credited by many economists as having reversed the long-term upward trend in the unemployment rate, which had risen to over 10%.⁴² Currently around 5%, it is now one of the lowest in Europe (in the UK it is 7.6%), with youth unemployment particularly low at 8% compared to 24% in the eurozone and 21% in the UK (see the box on apprenticeships overleaf).

⁴² See for example: Tom Krebs, Martin Scheffel, "[German labour reforms: Unpopular success](#)", VOXEU.org, 20 September 2013

German apprenticeships system

German apprenticeships operate under the dual system which combines practical training at companies with theoretical training at vocational schools.

40 out of every 1,000 employees in Germany were apprentices in 2008-2009; for the same period in England 11 out of 1,000 employees were apprentices.^a However, there has been a significant expansion in apprenticeships in England since then; recent analysis indicates in 2011 there were around 15 apprentices per 1,000 employees in England.^b

In Germany, approximately two-thirds of people complete an apprenticeship by age 25.^a In 2011, 1.5 million people in Germany were undertaking an apprenticeship, 60% male and 40% female.^c In England, though standards and occupations differ, the split is roughly equal, with slightly more females.



German education and training are devolved to the 16 Länder and can therefore differ between regions. Generally, between the ages of 10 and 12, pupils enter an orientation phase (Orientierungstufe) where streaming is decided through teacher reports and consultation with parents.^d Mostly the education is tripartite, with three types of school available. Students are split between grammar schools (Gymnasium), less academic secondary schools (Realschule), and 'general' or secondary modern schools (Hauptschule). Hauptschulen still offer an academic education and are not highly vocational, as is often incorrectly assumed.^e Some pupils attend a comprehensive school (Gesamtschule), which combines the streams of the Gymnasium and Realschule.

The Vocational Training Act (Berufsbildungsgesetz) 1969 formalised the arrangement of shared responsibility for the development and implementation of vocational training and education between employers, trade unions and federal and state government. Consisting of representatives from the Länder governments, employers' associations and trade unions, the Board at the Federal Institute for Vocational Education and Training is responsible for training regulations and counsels the federal government in general issues of dual training.^f

Excluding the funding of vocational schools, the cost of apprenticeships falls on employers. Whether or not they take on any apprentices, all employers contribute to the cost of local chambers of commerce through a compulsory levy.

Apprenticeships normally last three years and occupations are broadly defined to allow flexibility for specialism. After participating in an apprenticeship for a required amount of time, trainees can get their vocational certificate by passing a final exam. These exams include both theoretical and practical elements.

James Mirza Davies
Economic Policy and Statistics section

^a Hilary Steedman, *The State of Apprenticeships in 2010*, August 2010; ^b Doug Richard, *Richard review of apprenticeships: background evidence*, 2012; ^c Destatis, *Statistisches Jahrbuch, Deutschland und Internationales 2013*, October 2013; ^d Michael Potter, *Apprenticeships in Germany*, 30 January 2013; ^e Alison Wolf, *Review of Vocational Education – The Wolf Report*, March 2011; ^f UKCES, *International approaches to the development of intermediate level skills and apprenticeships*, January 2012

The then SPD-Green government's *Agenda 2010* reform package, including the Hartz reforms, was implemented in 2002 to 2005 despite widespread attachment to the ideals behind the welfare system. It was politically possible only because of the worsening unemployment problem and weak economic performance. The reforms included:

- loosening the strict rules on part-time and temporary employees;
- making jobcentres place a greater emphasis on job-search for the unemployed;
- new benefits for start-up companies;
- reorganising the Federal Labour Agency;
- reducing benefits for those refusing a job offer 'unreasonably';
- restructuring unemployment benefits, with benefits for those unemployed for over 12 months (18 months for older workers) cut for many, with the introduction of a flat rate rather than being linked to previous income;
- extending the tax-free threshold for low-paid jobs, known as "mini-jobs".⁴³

The reforms have been controversial and, in general, unpopular. One of the main areas of criticism relates to mini-jobs. These are low-paying jobs, paying up to €450 per month (£375) that are exempt from taxation and employee and employer social security contributions. Although they existed previously, the Hartz reforms extended their use by removing the cap on hours worked, raising the tax-free threshold and making them available to those with other jobs.

Some view mini-jobs as improving the flexibility of the labour market, while others view them as creating an underclass of low-paid employees who are prone to exploitation by some businesses. At the end of 2011, there were 7.5 million people with mini-jobs. For 4.9 million people – two-thirds of whom were women – the mini-job was their only job.⁴⁴ They are popular with some, students and older people for example, as a form of topping up income, and are most prevalent in low-skill sectors of the economy such as retail, wholesale, restaurants and health and social services.⁴⁵

One of the SPD's main campaign promises was to combat the problem of low pay by introducing a federal minimum wage of €8.50 per hour (£7.10). Germany has never had a national statutory minimum wage, although it does have minimum wages in a number of sectors. These are agreed between the sectors' employers' federations and the trade unions. The minimum wage varies between sectors and does not apply to all sectors of the economy.⁴⁶ The CDU and CSU campaigned against a national minimum wage, and instead proposed to expand the coverage of collectively-bargained sectoral and regional minimum wages.⁴⁷

The coalition agreement includes the introduction of a federal statutory minimum wage of €8.50, as the SPD wanted, but it won't begin until January 2015 and won't apply to everyone until January 2017. During the transition period of 2015 to 2017, deviations are allowed under existing collective agreements at a sectoral level. A commission will be set up to

⁴³ OECD (2009), "[Germany: The Hartz reforms of the labour market, 2002-05](#)", in W. Tompson, *The Political Economy of Reform: Lessons from Pensions, Product Markets and Labour Markets in Ten OECD Countries*, OECD Publishing; and OECD (2012), "[The German labour market: preparing for the future](#)", in OECD, *OECD Economic Surveys: Germany 2012*, OECD Publishing

⁴⁴ "[Commission Staff Working Paper: Assessment of the 2013 national reform programme and stability programme for Germany](#)", European Commission Country-specific Recommendations 2013, May 2013, p19

⁴⁵ "[Germany's part-time jobs system is thriving despite fierce criticism](#)", Deutsche Welle, 27 April 2011

⁴⁶ Kampelmann, S., Garnerio, A. and Rycx, F. (2013), "[Minimum wages in Europe: does the diversity of systems lead to a diversity of outcomes?](#)", European Trade Union Institute

⁴⁷ "Complacency biggest risk to purring growth engine", Financial Times, 23 September 2013

determine future minimum wage rates from January 2018. This will be made up of employers and trade union officials.⁴⁸

The agreement to introduce a national minimum wage has been viewed as a success for the SPD, although the phasing-in period softens the blow for the CDU/CSU. Business leaders have warned that the improvements to German competitiveness that were achieved in the 2000s may be lost as a result of the minimum wage.⁴⁹ The German public, however, are supportive, with 82% in favour of the minimum wage and only 16% against, according to a ZDF poll taken after the coalition agreement was announced.⁵⁰

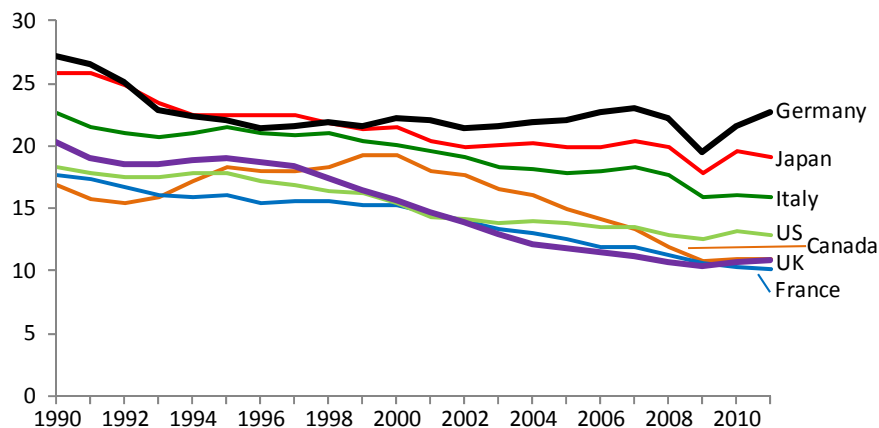
4.4 Trade is central to Germany's economy

Germany's economy has become increasingly trade-oriented in recent times, with exports equivalent to 52% of GDP in 2012, up from 36% a decade earlier.⁵¹ By comparison, the UK figure was 32% in 2012. Germany exported around £920 billion in goods in 2012, over three times as much as the UK exported (£300 billion). UK services exports, however, were 10% higher than Germany at around £180 billion.⁵²

While the manufacturing sector's share of economic output has been declining in most of the G7, it has remained stable in Germany at around 22%.⁵³ This is the highest proportion in the G7 and double the figure for the UK (see chart below).

Importance of manufacturing sector in G7 economies since 1990

As a % of GDP, UNCTAD data



Exports have underpinned the improved performance of the German economy since the early 2000s. As described in the section above, the foundations for this renewed success can be found in the competitiveness drive of the 2000s. This restraint in wage growth helped German industry become more competitive on the international market. The chart below shows how labour costs remained flat for most of the 2000s in Germany while other European countries, including the UK, saw steady increases.

⁴⁸ [Coalition agreement](#) between CDU, CSU and SPD [in German], p68

⁴⁹ "German business savages economic plans of proposed coalition", Financial Times, 29 November 2013

⁵⁰ "Große Koalition: Mehrheit ist zufrieden mit Vereinbarungen", ZDF politbarometer, 29 November 2013

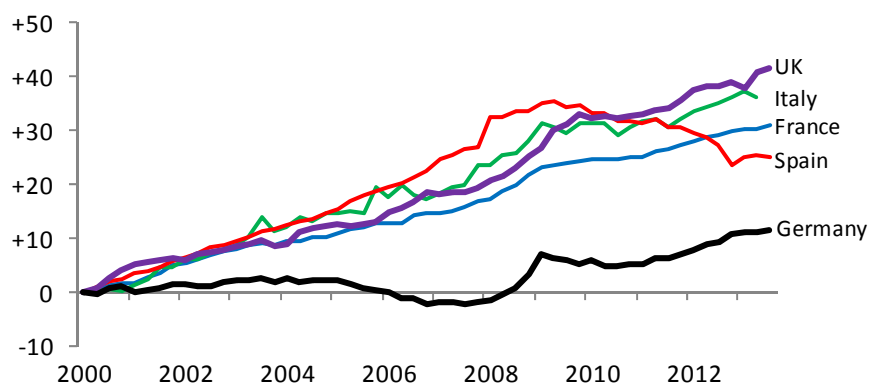
⁵¹ [OECD.stat](#), National accounts at a glance –expenditure: exports as a % of GDP

⁵² World Trade Organisation, Trade profiles of [Germany](#) and [the UK](#) [accessed 10 December 2013]

⁵³ UN Conference on Trade and Development (UNCTAD) [database](#) – value added by type of economic activity

Labour costs per unit of output, selected countries

% change since Q1 2000



Source: OECD.stat (early estimates of quarterly unit labour costs)

Over 40% of Germany’s goods exports in 2012 were vehicles, machinery and equipment, and chemicals. Germany’s largest trading partner is France, followed by the US, with the UK third highest. But the share of goods exports that are sold to EU countries has been steadily declining over the past two decades, from 66% in 1991 to 57% in 2012:

Germany's main goods exports, 2012

	€bn	% of total
Motor vehicles	191	17%
Machinery & equipment	166	15%
Chemicals	105	10%
Computers & electronics	87	8%
Electrical equipment	66	6%
Total	1,096	

Source: Destatis - German statistics agency

Germany's main goods export partners, 2012

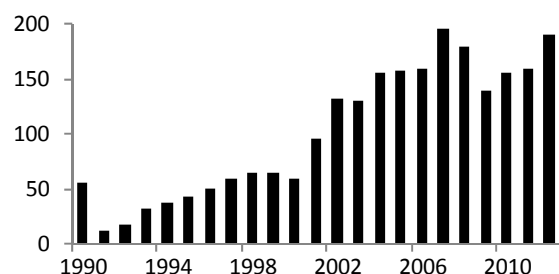
	€bn	% of total
France	103	9%
US	87	8%
UK	73	7%
The Netherlands	70	6%
China	67	6%
Total	1,096	

Source: Destatis - German statistics agency

The strength of its exporting sector combined with more modest growth in demand for imports has resulted in Germany building a significant trade surplus (see chart below). In 2012, this amounted to €190 billion (£160 billion) or 7% of GDP.

Foreign trade balance

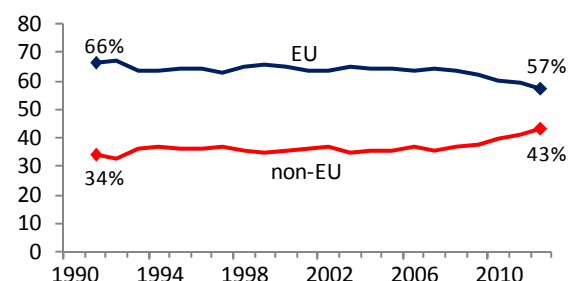
Billions of euros, annual data



Source: Destatis, German statistical office

Exports by destination (% of total)

Based on EU27 as of end-2011



Source: Destatis, German statistical office

The severe recessions in a number of eurozone economies and the continued risk of another serious crisis weigh on the outlook for exporters and, in turn, the German economy as a whole (see section 4.5 below for more).

The coalition agreement emphasises that “our country needs strong exports”, with an internationally competitive, modern and dynamic industrial sector. It also states the desire to support medium-sized companies’ trade abroad and to continue with successful measures to promote German trade which include foreign chambers of commerce and Germany Trade and Invest, the government’s trade promotion organisation.⁵⁴

4.5 Germany and the eurozone crisis – more of the same expected

Being highly trade-orientated, the economy is vulnerable to developments in other countries. Other eurozone countries are especially important, as they buy 37% of Germany’s exports. Uncertainty over the future of the eurozone crisis is cited by many, including the IMF, as a factor impeding German growth. Despite successful efforts by the European Central Bank to stabilise the crisis, the IMF warns that the continued uncertainty surrounding policies and economic prospects for the euro area is “holding back more robust growth in Germany” and, more specifically, causing businesses to postpone investment decisions.⁵⁵

The response to the eurozone crisis has been heavily influenced by Germany and its domestic politics (see the box on the next page for a summary of the causes of the crisis). In the face of public and political resistance, Germany, along with other eurozone members, has guaranteed the loans provided to crisis-stricken Greece, Ireland, Portugal, Spain and Cyprus to maintain the solvency of their governments and banks. It has also been influential in negotiating the conditions attached to these loans, namely economic reform and austerity measures. The ‘fiscal compact’, a commitment to restrain public spending and enshrine budget deficit rules in national law, was originally promoted by Germany.⁵⁶ Furthermore, the European Central Bank’s initial response to the crisis was shaped, and some would argue constrained, by Germany. In particular, it has strongly resisted the ECB buying up peripheral sovereign debt to contain rising government borrowing costs.⁵⁷

⁵⁴ [Coalition agreement](#) between CDU, CSU and SPD [in German], p8 and p16

⁵⁵ [“Euro area uncertainty holds back stronger recovery in Germany”](#), IMF Survey Magazine, August 6 2013

⁵⁶ See European Commission section on [“Financial assistance in EU Member States”](#) for more.

⁵⁷ For arguments that Germany has hindered the ECB’s response to the crisis, see for example, Paul de Grauwe, [“Stop this campaign against ECB policy”](#), *Financial Times*, 22 October 2012

Causes of the eurozone crisis

The reasons for the eurozone crisis are many and varied, with some general causes and some country-specific factors. A summary of the key factors is provided in this box. The list is not exhaustive.

What's happened

Over the past few years a number of countries in the eurozone – Greece in May 2010 and February 2012, Ireland in November 2010, Portugal in May 2011, Spain in July 2012 for its banks and Cyprus in May 2013 – have been forced into taking emergency loans from other eurozone and EU governments and the IMF. These countries' governments asked for the loans when they became unable to fund their budget deficits at sustainable interest rates on the financial markets and faced the prospect of defaulting on their debt. In return for the loans, these countries signed up to implement economic reforms and public sector austerity intended to reduce their budget deficits and make their economies more competitive. So, inability to borrow money on the markets to fund deficits was the short-term factor behind the crisis, but what were the underlying reasons behind it?

Causes of the crisis

One-size-fits-all monetary policy

The single currency began in 1999 with 11 member countries (there are now 17; 18 from January 2014). As a result, euro members gave control of monetary policy to the European Central Bank (ECB) which sets interest rates for the whole of the eurozone. Some large countries, notably Germany, had weak growth and this led to the ECB setting a relatively low interest rate. However, this rate was too low for some booming economies like Ireland and Spain and helped create large housing-market bubbles there. Also, by giving up an independent monetary policy and currency, countries with high debt burdens were not able to use certain measures to respond to the crisis that countries outside the euro (like the UK) could use. These include allowing higher inflation (to reduce the debt burden), directly/indirectly depreciating their currency (to promote exports) and buying up their own debt to avoid default (like in quantitative easing programmes).

Misplaced confidence and assessment of risks

Borrowing costs for all eurozone governments converged upon the euro's creation, meaning countries like Greece that had previously had to offer a higher interest rate than, say, Germany to attract investment were now able to borrow more cheaply. Likewise, private sector borrowing costs in these countries also fell toward German levels. This fuelled a build-up of government debt in Greece and Portugal, as well as private-sector debt in Portugal, Ireland and Spain. The implication was that financial markets perceived every country in the eurozone to have virtually the same risk of defaulting on their loans (perhaps assuming all eurozone countries 'were in it together'). Once the global financial crisis began in 2008, investors thought again. Countries with high debt burdens and weak economies, such as Greece, soon saw their borrowing costs rise.

Economic divergence and trade imbalances

As mentioned above, different economies in the eurozone were growing at different speeds in the 2000s. Many of the countries that ultimately needed bailouts also saw their economy's productivity levels and competitiveness decline (due to higher labour costs) relative to the eurozone average (and Germany in particular) during this period. So countries like Greece, Ireland and Spain, who were growing strongly and buying lots of imports, were also becoming less competitive internationally with exports falling. The result was that a large trade deficit had to be funded by high levels of public and private borrowing (which, as noted above, had become cheaper). Once the financial crisis hit and borrowing costs starting rising for these countries, confidence in their ability to repay this debt was called into question, making financing it more difficult and expensive. The single currency also meant that the easy way to regain competitiveness (at least in the short-term) of devaluing your currency was not an option for these countries. Meanwhile, Germany had accumulated large trade surpluses during this time, partly as a result of lowering its labour costs (through restraint in wage growth).

Response to the crisis

When the euro was created, no mechanism was set up to deal with debt crises such as those seen since 2010. As a result, emergency rescue plans had to be drawn up and agreed on the hoof. The long drawn-out affairs that became synonymous with these bailouts, were viewed unfavourably by many and created the impression that the larger eurozone countries that were providing the bulk of

the loans were split as to how best to resolve the crisis. This lack of decisive action weakened confidence in international markets, prolonging the crisis.

Country-specific factors

The reasons leading up to the crisis were different for each country. Some of these factors are summarised very briefly below:

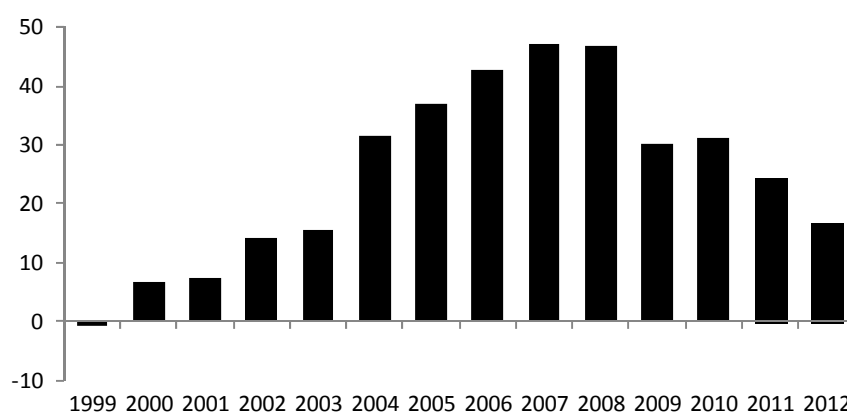
- **Greece** (loans totalling €240bn) – high public sector debt, generous public sector benefits, chronic tax evasion and weak competitiveness.
- **Ireland** (loans totalling €85 billion, including €17.5 billion from Irish Treasury and National Pension Reserve Fund) – declining competitiveness and property bubble funded by banks which went bust and were taken over and underwritten by the state, causing government debt crisis.
- **Portugal** (loans totalling €78bn) – moderately high private and public sector debt, weak competitiveness, and anaemic growth.
- **Spain** (loans totalling €41bn) – an ailing banking sector had lent heavily to construction sector before the housing bubble burst.
- **Cyprus** (loans totalling €10bn) – collapse of the banking sector (massive relative to size of economy), partly due to links to Greece.

The majority of the loans provided to the countries were funded by other eurozone countries, with the IMF also contributing.

Daniel Harari
Economic Policy and Statistics section

Germany's export sector is highly-competitive compared with the rest of the currency union and this is reflected in a large trade surplus. By contrast, the eurozone periphery's problems lie partly in a lack of export competitiveness and persistent trade deficits. The result was an accumulation of financial claims by Germany on the eurozone periphery, although the magnitude of the annual surplus has come down since the crisis began:

German current account balance with Spain, Greece, Portugal, Ireland and Italy, annual total, € billion



Source: Deutsche Bundesbank Balance of Payments Statistical database, Dec 2013

Some commentators argue that Germany has failed to appreciate the link between debtor and creditor, leading to a response to the eurozone crisis which is overly focused on public spending cuts and fails to address the fundamental imbalances in competitiveness between the eurozone periphery and Germany (as well as some other Northern EU countries like the

Netherlands) that lie at the heart of the crisis.⁵⁸ The European Commission, as part of its annual review of Member States' economies, has asked for an in-depth analysis of Germany's persistently high current account surplus (it has been over 6% of GDP every year since 2007) to see if it is suffering from a "macroeconomic imbalance".⁵⁹

More recently, there have been signs that Germany's approach to the crisis has softened, with a greater emphasis being placed on growth and investment.⁶⁰ However, domestic opposition to making further loans to crisis-hit countries, or to take losses on loans already provided, underlines how politically difficult it would be for the government to change its present course of insisting on tough conditions in return for emergency loans.⁶¹

There is little in the coalition agreement that suggests a change of approach. It explicitly rules out any pooling of debt among eurozone countries, something the SPD have at times suggested might be a solution to the crisis.⁶² It also emphasises the need for greater competitiveness and structural reforms combined with public spending cuts in crisis-hit countries. Any further emergency loans must be approved by parliament, as is currently the case.⁶³

The SPD had been critical of the previous government's approach to the crisis, although it ultimately voted in favour of the CDU/CSU-FDP government's requests for bailouts.⁶⁴ It also believed that more should have been done to counter the effects of austerity in the crisis-hit countries. The coalition agreement, however, does not contain much in this regard and appears to be much closer to the CDU/CSU's position. In short, the German approach to the crisis is unlikely to change.

4.6 Fiscal policy: can spending plans be met without increasing debt or taxes?

Germany's weak economy in the early 2000s led to deficits that breached the EU's Stability and Growth Pact limit of 3%.⁶⁵ Stronger growth in the mid-2000s saw the deficit decline and then turn into a small surplus in 2007. Deficits returned following the 2008/2009 recession and peaked at just over 4% of GDP, but were not as large as in a number of countries, including the UK where the deficit peaked at 11%. The subsequent strong recovery whittled away the post-recession deficits and the budget is now in balance.

Gross debt is around 80% of GDP. Unlike many other advanced economies it has stabilised and is forecast by the IMF to decline steadily in forthcoming years, as the size of the economy expands and the annual budget is kept in balance (see charts overleaf):

⁵⁸ See Martin Wolf, "[Germany's strange parallel universe](#)", *Financial Times*, 24 September 2013; for a defence of Germany's response to the crisis from its finance minister Wolfgang Schäuble, see "[Ignore the doomsayers: Europe is being fixed](#)", *Financial Times*, 16 September 2013

⁵⁹ European Commission press release, "[European Semester 2014: strengthening the recovery](#)", 13 November 2013

⁶⁰ For example, "[European Leaders' Softening on Austerity May Accelerate](#)", Bloomberg news, 29 April 2013

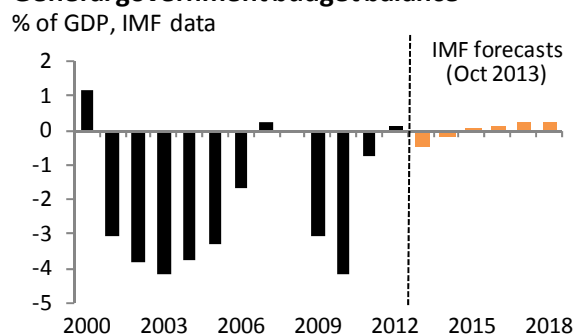
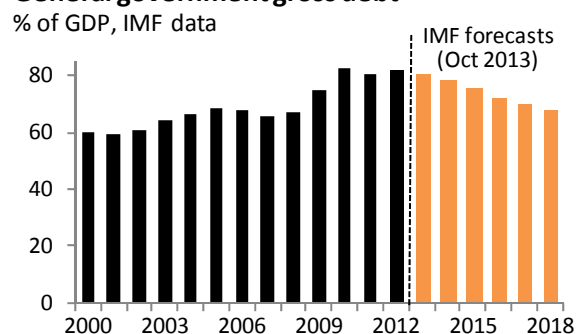
⁶¹ For instance see OpenEurope [August 2013 poll](#)

⁶² "[Merkel Said to Reject Tax Increases, Euro Bonds in Party Talks](#)", Bloomberg news, 14 October 2013

⁶³ [Coalition agreement](#) between CDU, CSU and SPD [in German], pp156-159

⁶⁴ "['Unreliable' in a Crisis: SPD Demands an Apology from Merkel](#)", Spiegel online, 4 September 2013

⁶⁵ Fiscal data are from the IMF. These may differ somewhat from national definitions and those from other sources.

General government budget balance**General government gross debt**

In 2009, the Constitution was amended to include a balanced budget clause or debt brake rule – *Schuldenbremse* – for the federal and regional governments. From 2016, the federal government is not allowed to run a structural deficit greater than 0.35% (this rule has already been met).⁶⁶ The regional governments have until 2020 to eliminate all structural deficits.⁶⁷ Some exceptions are allowed, but these are fairly narrow in scope – for instance national emergencies beyond the government’s control.

The coalition agreement states the intention to reduce the debt-to-GDP ratio from 81% in 2012 to less than 60% within a decade, with a target of less than 70% by the end of 2017. In addition, a number of principles are listed that aim to enforce prudent public spending, including limiting growth in public spending to growth in GDP over the four-year term of the Government. There are to be no new tax increases, a central commitment of the CDU election campaign.⁶⁸ The SPD had campaigned on raising more money from the wealthy, including raising the top rate of tax for those earning over €100,000 per year (around £83,000) from 45% to 49%, but did not get this into the coalition agreement.

There are also spending commitments of €23 billion (around £19 billion) over the four-year term, which include an additional €5 billion (£4 billion) for “much-needed investment” in infrastructure and increased funding for additional pension payments to some (older parents with children born before 1992, and those who have worked for 45 years, who will be able to retire at 63 instead of 67).⁶⁹

Finance Minister Wolfgang Schäuble (CDU) stated that there would be enough flexibility in the current budget to pay for the extra spending commitments, and that the ministry is already budgeting for surpluses of around €15 billion per year (£12.5 billion) between 2014 and 2017.⁷⁰ However, some expect that the cost of these commitments, and improvements to disability benefits, will eventually lead to taxes having to be raised to fund them.⁷¹ Indeed, an opinion poll carried out by ZDF showed 79% of the public thought the measures in the agreement could not be financed without additional taxes or debts (16% thought it could).⁷²

4.7 Long-term growth is hampered by an ageing population

Despite a relatively strong performance compared with other large economies in recent years, Germany’s potential growth rate – the pace at which the economy can expand

⁶⁶ The structural, or underlying, deficit is the part of budget balance that doesn’t fluctuate with the economic cycle.

⁶⁷ For more on the debt brake provision, see “[The debt brake in Germany – key aspects and implementation](#)”, Deutsche Bundesbank monthly report, October 2011

⁶⁸ [Coalition agreement](#) between CDU, CSU and SPD [in German], pp87-88

⁶⁹ Ibid. pp88-89

⁷⁰ “[World from Berlin: “Germany no longer a role model for Europe”](#)”, Spiegel online, 28 November 2013

⁷¹ “[Wer hat sich wo durchgesetzt?: Steuern steigen nicht](#)”, tagesschau.de, 27 November 2013

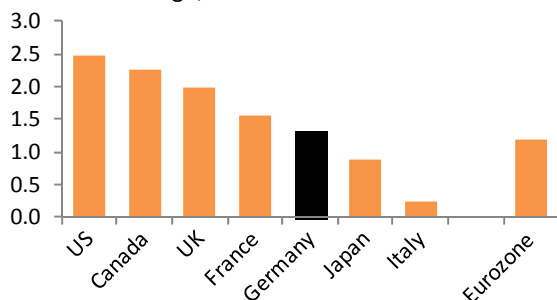
⁷² “[Große Koalition: Mehrheit ist zufrieden mit Vereinbarungen](#)”, ZDF politbarometer, 29 November 2013

sustainably over the long term – is low at around 1¼%. This is similar to the eurozone average. In comparison, potential growth is estimated at around 2½% in the US and 2-2¼% in the UK.

A main obstacle to long-term growth is demographic change; the problem is summarised succinctly in the coalition agreement: “our population is the oldest in Europe”.⁷³ With the population having already reached a plateau of around 82 million in the 2000s, it is now gradually beginning to fall. Without large-scale net migration increases or a sharp rise in the birth rate, the decline is likely to continue over coming decades. The German statistical agency projected in 2009 that the population will decline to 65-70 million by 2060 (depending on net migration levels).⁷⁴

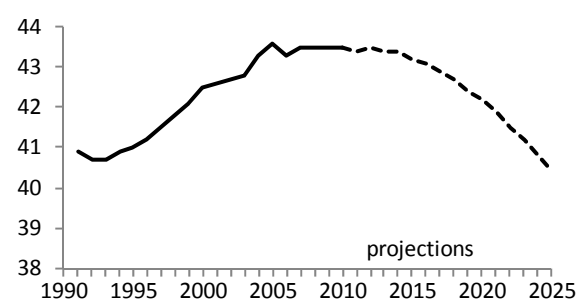
Long-term potential GDP growth among G7

Annual % change, OECD forecast for 2015



Projections of labour force (in millions)

OECD forecasts from 2011



The labour force is projected by the OECD to fall from around 43.5 million in 2012 to 40.4 million in 2025 (see chart above).⁷⁵ This may lead to labour shortages, rising wages and an increase in companies' labour costs, and reduced competitiveness of German firms. Overall, the OECD notes that the effects of this projected decline in the labour supply are estimated to reduce potential GDP growth by 0.9%-points in 2025.⁷⁶

Also crucial to any country's long-term growth prospects is the productivity growth of its workforce. In this regard, Germany has performed poorly compared with its peers. The OECD notes that growth in productivity per employee was only half the OECD average in the 2000s.⁷⁷ On a per hour basis, the difference narrows, as Germans typically work fewer hours than many other OECD countries.⁷⁸ However, the problem is particularly evident in the services sector, ie outside the export-focused manufacturing sector.⁷⁹

The coalition agreement refers to the need to modernise the economy, through digitisation and modern technology. This is required in order for Germany to remain competitive and to provide new jobs in the knowledge-based services sector.⁸⁰ It also states the desire to increase spending on research and development to 3% of GDP; ensure a skilled workforce to face the demographic challenges; and boost public investment, particularly in infrastructure.⁸¹

⁷³ Coalition agreement between CDU, CSU and SPD [in German], pp 7-8

⁷⁴ Destatis, “Germany's Population by 2060: Results of the 12th coordinated population projection”, 2009

⁷⁵ OECD, *Economic Survey of Germany 2012*, February 2012, p49

⁷⁶ Ibid., “box 1.2: Impact of ageing on economic growth”, pp.49-50

⁷⁷ OECD, *Economic Survey of Germany 2012*, February 2012, p25

⁷⁸ OECD, *Economic Policy reforms 2013: going for growth – Germany country notes*, February 2013

⁷⁹ IMF, *staff report for article IV consultation with Germany* [PDF], August 2013, pp27-28

⁸⁰ Coalition agreement between CDU, CSU and SPD [in German], p13

⁸¹ Investment as a share of GDP has declined from around 22% in 2000 to 18% in 2013 (IMF data).

Despite these pledges, a number of commentators have raised concerns at the lack of specific policies in the agreement that will boost investment spending and improve the productivity of the workforce.⁸² In addition, the introduction of a minimum wage, increased pension payments and lower retirement ages for some, have led to criticism that this will result in Germany's hard-won competitiveness being rolled back and its long-term growth rate impaired.⁸³

The *Financial Times* laments the agreement's lack of reforms which it believes are needed to "fix the structural flaws in the German economy",⁸⁴ while the president of German's largest employers' organisation, the BDI, was quoted as saying, "the coalition agreement is a wasted opportunity for Germany's future".⁸⁵

⁸² See, for example, European Council on Foreign Relations, "[What does the German coalition agreement mean for the eurozone?](#)", Sebastian Dullien, 29 November 2013

⁸³ See a [summary of German newspaper editorials for 28 November 2013](#), Spiegel online

⁸⁴ "Muted hopes for Merkel's third act", *Financial Times* editorial, 27 November 2013

⁸⁵ "German business savages economic plans of proposed coalition", *Financial Times*, 29 November 2013

5 Germany's place in the EU

5.1 Introduction

Germany's role in Europe and its handling of the financial crisis will probably dominate the new Government's foreign policy agenda.

Some commentators⁸⁶ believe that because of its past, taking the lead in Europe still makes many Germans feel uneasy: the *Economist*, for example, described Germany as a "reluctant hegemon".⁸⁷ European integration has, they maintain, kept Germany in check.

"The German problem is the European problem par excellence"
Charles de Gaulle, President of France, 4 February 1965

But Germany has historically been the key to Europe, and since re-unification it has certainly been the most influential country on the continent and arguably the most powerful.

Domestically there is not the broad range of opinion seen in France or Italy, for example. Despite being at the heart of the eurozone drama, Germany seems largely immune to the polarisation of views on the future of the economic and monetary union, and of the EU as a whole. All the main parties have struggled to differentiate their euro policies, and although the SPD and the Greens would prefer less austerity, they have supported all the major euro rescue measures.⁸⁸ Openly anti-euro sentiments have remained off-limits for all mainstream parties, and the euro and the EU have never played a major role in a German election.⁸⁹

5.2 Grand coalition policy

There is a high level of consensus on foreign policy matters between the CDU/CSU and the SPD.⁹⁰ Ulrike Guerot and Victoria Kupsch criticised the [first draft](#) of the coalition agreement on foreign policy for being "superficial, amounting to a simple continuation of recent years":

Germany cannot afford a continuation of the past four years' policies - while hesitation may have felt safe at first, it is by now clear that it was too often short-sighted and hence damaging to long-term prospects. In the current state of the European Union, where markets are poorly managed because of political under-integration, Germany has to take responsibility. Policies must be drafted for and from a European level, and the re-nationalisation of competencies, which could only lead to political deadlock while markets continue to spiral out of control, must be avoided.⁹¹

The coalition should face very little parliamentary opposition in foreign and EU matters, given that the AfD failed to win any Bundestag seats. Yet they have not taken the opportunity for bold measures: "Angela Merkel is not the 'guardian angel' of a federalist Europe".⁹² Under the final coalition agreement, [Shaping Germany's Future](#), Germany's foreign policy, its handling of the euro crisis and international trade are set to stay largely the same:

- The coalition will oppose debt-sharing in the eurozone and support a financial transactions tax.

⁸⁶ Eg Michael Wohlgemuth, director of Open Europe Berlin; see also "[Germany and the euro: Don't make us Führer](#)", *Economist*, 13 April 2013

⁸⁷ See "[Europe's reluctant hegemon](#)", *Economist*, 13 June 2013; Michael Wohlgemuth, director of Open Europe Berlin; "[Germany and the euro: Don't make us Führer](#)", *Economist*, 13 April 2013

⁸⁸ Almut Möller, "[Queen Europa](#)", *The World Today*, Aug-Sep 2013, p29

⁸⁹ Peter Matuschek, political analyst at German public opinion researchers Forsa, quoted in "[Germany's new anti-euro party could leave election outcome open](#)", *Guardian*, 15 September 2013

⁹⁰ See [Guardian 29 November 2013](#).

⁹¹ *Ibid*

⁹² Almut Möller, "[Queen Europa](#)", *The World Today*, Aug-Sep 2013, p29

- Chancellor Merkel has ceded absolute opposition to a banking union in favour of a modified approach in which the Commission is not given enhanced powers to close banks.
- An EU-US trade agreement, the Transatlantic Trade and Investment Partnership (TTIP), is flagged up as one of the central projects of the transatlantic partnership, but taking into account European standards in data protection, social security, environmental protection, food safety and consumer rights.

The SPD is reported to have asked Chancellor Merkel to nominate Martin Schulz, the Socialist President of the European Parliament, as candidate for president of the European Commission to succeed José Manuel Barroso.⁹³

5.3 Government support for European integration

Germany, like the UK, is having a serious internal debate about its place in Europe, but it starts from a different base. Successive German governments have taken a staunchly pro-Europe stance. As Mairi Maclean and Jean-Marc Trouille put it, Germany has regarded European integration “as a matter of course, as a natural evolution whose necessity is a statement of the obvious”.⁹⁴

Germany’s post-Second World War commitment to Europe has come into conflict with its belief in stable budgets and a robust economy, and the euro crisis has challenged the Government’s views on EU integration. Chancellor Merkel’s steering of the EU through the debt crisis for the last four years has been based on the belief that “If the euro fails, Europe fails. We can’t let that happen”.⁹⁵ The Government believes EU integration has been essential for peace and prosperity throughout Europe, and that it remains essential for Germany’s and Europe’s future role on the world stage.

A 2012 Foreign Ministry statement argued that “Europe is the definitive answer to the German question”:

Anyone who calls the European idea into question in the light of the crisis must also ask themselves what kind of future Germany and Europe would have if integration had never happened. Would we now live in a continent that is united as never before? Would this Europe be a bastion of peace, freedom and prosperity? The answer is obvious: the financial, political and human cost of non-Europe would be appallingly high. It would bear no relation to the exertions the current crisis in Europe requires of us.

No member state would have more to lose than Germany. Our country lies at the heart of Europe. Throughout the centuries, it invariably suffered whenever Europe was in conflict. It was also this central position that caused Germany twice last century to bring disaster on itself and on the whole of Europe. By contrast, our country is prospering in the united Europe. The fact that we have closer ties with our European neighbours today than ever before is a tremendous enrichment for us. No matter how dynamic our economy may be, we remain more strongly dependent on Europe than does any other country. Europe is the definitive answer to “the German question”. That is why we bear a particular responsibility for ensuring that European integration is carried forward with our neighbours in France, Poland and the other member states.

⁹³ [EurActiv 29 October 2013](#).

⁹⁴ Jean-Marc Trouille and Mairi Maclean, “Conclusion: Britain and the Franco-German Axis: Two Plus One, or Three Together?”, in Mairi Maclean and Jean-Marc Trouille (eds), *France, Germany and Britain: Partners in a Changing World*, 2001, p183

⁹⁵ [Deutsche Welle 19 September 2013](#). Angela Merkel said this in October 2011 and it was widely reported as being “a leitmotif of her European crisis policy”.

There is no alternative to integration which is in any way convincing. The re-nationalization of policy in Europe would be pure folly; we would all sacrifice our future. As early as 2025, Germany will make up less than one percent of the world's population. That will not be enough to ensure us the world's attention. Turning our backs on Europe would amount to capitulation in the face of today's global challenges. European discord would get us nowhere and would mean ceding our role in world affairs to the new powers in shaping globalization. We would be passing up the historic opportunity to speak up with a common European voice for our values and interests.⁹⁶

Chancellor Merkel's success in winning a third term in spite of public opposition to eurozone bailouts confirmed German confidence in its role in Europe. *The Guardian* commented that "More than three years into the European Union's worst nightmare, Merkel, uniquely in the eurozone, has been rewarded for her handling of the currency and sovereign debt crisis. Everywhere else voters have punished governments".⁹⁷

However, her success may also rest on her cautious approach to the euro crisis in the face of internal opposition. Although she had called for "more Europe" to tackle the eurozone problems, Chancellor Merkel opposed moves towards deeper integration, such as a full banking union and the pooling of EU Member States' sovereign debt. She was reported as wanting more direct agreements between EU Member States – an intergovernmental rather than an EU approach – and during her election campaign she was widely reported as saying that she saw "no need to give more authority to Brussels". For Merkel, the EU is "a vehicle for cooperation and not a means in itself."⁹⁸

5.4 Public opinion

German public opinion has historically strongly supported EU membership. However, opinion polls now show a fall in public support for the EU and more support for domestic decision-making. Jose Ignacio Torreblanca (European Council on Foreign Relations) [reported on 1 October 2013](#) that the [Eurobarometer spring 2013 poll](#) suggested that only 29% of Germans tended to trust the EU, compared with 57% in a poll in May 2007. Data collected in August 2013 for a [YouGov Deutschland poll for Open Europe and Open Europe Berlin](#) seem to confirm this trend:

- Six in ten (60%) voters think national parliaments should be given more powers to block unwanted EU laws (25% disagreed.)
- 61% thought decisions over regional development subsidies should only be made by national politicians rather than at the EU-level (24% tend to disagree.)
- 58% thought agricultural subsidies should be national (26% disagreed.)
- Almost two-thirds (64%) want to reduce Germany's contribution to the EU budget (20% disagreed.)
- Six in ten voters said decisions over criminal justice, data protection and employment laws should be made by national politicians rather than at the EU level (26%, 27% and 24% disagree respectively.)
- Just over half (51%) think decisions on intra-EU immigration should be made at the national level (30% disagreed.)
- Fisheries, food standards and climate change were examples of areas where a majority of Germans appear to support continued EU involvement.⁹⁹

⁹⁶ *Auswärtiges Amt, Explaining Europe, Discussing Europe*, February 2012

⁹⁷ *The Guardian* 22 September 2013

⁹⁸ Almut Möller, "Queen Europa", *The World Today*, Aug-Sep 2013, p29

⁹⁹ *Open Europe* briefing note on *YouGov Deutschland* poll on 'German voters' sentiments on the EU', 17 September 2013

Nevertheless, there is no strong eurosceptic movement in Germany. The new anti-euro AfD party failed to win enough votes to enter the Bundestag at its first attempt in 2013.

5.5 Does Germany dominate the EU institutions?

The structures of the EU institutions and decision-making mechanisms have largely prevented Germany (or any other large Member State) from exerting a dominant influence in EU decision-making. In a 2012 study of Member States' voting behaviour in the EU Council, Wim Van Aken¹⁰⁰ found that: "Germany, the UK, Sweden, the Netherlands, Denmark, Poland and Italy respectively contest more and are regularly outvoted in the Council".¹⁰¹ The author found a distinct change in German voting behaviour before and after the 2004 EU enlargement by ten new Member States:

Before 2004 Germany was the EU's most frequently contesting Member State. In the post-2004 era Germany has become more proximate to other larger Member States in the Council because its level of contestation has dropped and its voting behaviour become more similar to that of the silent majority.

5.6 The end of the Franco-German 'motor'?

Franco-German relations have been the anchor and motor of European integration since the inception of the European Economic Community (EEC) in 1958, but tensions between the two might now put the UK in a more pivotal position.

France and Germany shaped the early European integration process, which emerged as an institutional and cultural combination of "German-style subsidiarity" (devolution of powers in a federal entity) and "French-style technocracy" (a collection of nation states).¹⁰² Trouille and Maclean note that until German unification in October 1990 "France was very much the dominant partner in the relationship", but that upon reunification Germany "regained far more than its unity: it also recovered its sovereignty, its past, and a new consolidated and unrivalled geopolitical position at the heart of Europe".¹⁰³

Since 1990 the Franco-German relationship has remained an important element in EU decision-making. France and Germany have generally taken a common position ahead of European Council summits, where French political dominance has been counter-weighted by German economic dominance. However, since the eruption of the euro crisis, Germany has taken on a dominant political, as well as economic, role in Europe. An *Economist* report in December 2010 summarised the beginning of a German "coming of age":

Germany's economic supremacy coincides with its political coming of age, as the country no longer shies away from fighting for its national interests. The post-war European bargain, under which the Germans "put their economy at Europe's disposal while France gave them political legitimacy," as one French official puts it, no longer holds. Add to this a generation of officials and politicians on both sides of the Rhine who neither studied at each other's universities nor even speak each other's language and, despite the tight institutional mesh that still ties the two together, there is a sense that the Germans no longer need the French as they once did.¹⁰⁴

¹⁰⁰ Economics Department, HEC-University of Liège.

¹⁰¹ Swedish Institute for European Policy Studies, 2012:2, [Voting in the Council of the European Union: Contested Decision-Making in the EU Council of Ministers \(1995-2010\)](#).

¹⁰² François Heisbourg, *Financial Times*, 20 January 2013 "[The union at Europe's heart is frayed](#)".

¹⁰³ Mairi Maclean and Jean-Marc Trouille, "Introduction: France, Germany and Britain: Partners in a Changing World?", 2001, p9

¹⁰⁴ "[France loses ground to Germany. Power shift: The euro crisis shows starkly that power in the European Union has shifted from France to Germany](#)", *Economist*, 9 December 2010

Chancellor Merkel and the previous French President, Nicolas Sarkozy, were more aligned in their euro policies, but German abstention in the UN Security Council vote on military intervention in Libya marked a significant split with France, leading some to speculate that “a Franco-British entente could be the new engine of European geopolitics”¹⁰⁵ (see section 6 below). President François Hollande pledged to reverse many of Sarkozy’s economic policies,¹⁰⁶ appearing to leave Chancellor Merkel with only a few smaller northern European eurozone allies, at the same time as she was increasingly being asked by leaders such as US President, Barack Obama and David Cameron to assume a greater role in reversing the eurozone crisis.¹⁰⁷

But Hollande and Merkel were not in fact as far apart as some had thought. [Reuters noted on 15 May 2012](#) similarities in the backgrounds of Merkel and the new French leader:

The two were born less than a month apart, grew up in religious households and both scorn the flashy styles of their more charismatic predecessors, Sarkozy and Gerhard Schroeder.

Hollande noted that French and German leaders of different political stripes had a long history of working well together to promote the common European project, referring to Schroeder and Jacques Chirac, as well as to Helmut Kohl and Francois Mitterrand, and Helmut Schmidt and Valery Giscard d'Estaing.

Joachim Fritz-Vannahme of the *Bertelsmann Stiftung* commented on the changing Franco-German relationship:

Is Germany still going down the common path in Europe, or is it going at it alone? Is it merely looking after its own interests, or is it helping its partners to flourish and prosper? Throughout the recent EU crisis sensitive answers to such anxious questions have defined the image of Germany in France, as well as in Greece, Italy, and other countries. [...]

“Our common future cannot be separated from a deepened and enlarged European Union.” This is what a Franco-German declaration proclaimed ten years ago, on the occasion of the 40th anniversary of the Élysée Treaty. Today things are not quite as simple. The deepening of the EU is now largely in the hands of the member states that have the euro, and enlargement has receded into the distance. In fact, reducing the entire EU to a eurozone EU or a core Europe based on a monetary, economic and political union is being pondered. Some see it as an arrangement with a brighter future.¹⁰⁸

Fritz-Vannahme believes that Hollande and Merkel “complement each other perfectly”:

France wants a Europe based on social justice; Germany wants a stable and competitive EU. Once again one sees Paris thinking in terms of grand designs and

¹⁰⁵ Luis Simón Navarro, Institute for European Studies, Vrije Universiteit Brussel, “[The \(geo\)politics behind Europe’s Libya split](#)”, *European Voice*, 13 April 2011. For an interesting analysis of the German position, see Madelene Lindström and Kristina Zetterlund, “[Setting the Stage for the Military Intervention in Libya: Decisions Made and Their Implications for the EU and NATO](#)”, Swedish Defence Research Agency (FOI), October 2012

¹⁰⁶ See “[Interview with François Hollande](#)”, *Spiegelonline*, 12 March 2012, for his views on the euro crisis and Franco-German relations.

¹⁰⁷ See Emily Schultheis, “[Stepping Up: US Experts Want More Leadership from Germany](#)”, *Spiegelonline*, 23 August 2013.

¹⁰⁸ Joachim Fritz-Vannahme, “[Vive l’Europe! Vive l’Union!](#)”, Bertelsmann Stiftung *Spotlight Europe* #2013/01, January 2013

sweeping visions of the kind the EU badly needs. Meanwhile Berlin is working away at tedious and self-imposed duties.

Solidarity and growth, discipline and responsibility, good economic policies and good social policies, are all necessary if Paris and Berlin want to extricate themselves and their European partners from the crisis. Again, this is not a new idea. In the history of the European Union the two partners have always had to strike a balance and indeed reach a compromise between a liberal economic order and a social order based on the notion of solidarity. Now they are going to have to pursue this quest in tempestuous times, if, that is, they want to live up to their traditional leadership role. That is the impression one gets at first sight. However, if one takes a second look it becomes apparent that the ideas of the two sides do not entirely coincide. Berlin would like a convention in order to amend the treaties. Furthermore, talk about the United States of Europe no longer shocks anyone in the German government -- nor in most of the opposition. Things are different in Paris, where no one currently dares to broach concepts and visions of this kind.

He does not think current differences are a “cause for despair”:

The Franco-German relationship derives its strength from all these dissimilarities, and indeed from the differences between the partners. Thus the two countries are living proof of the fact that an ever closer union certainly does not encourage conformity and centralism. The differences do not actually disappear in the course of integration, and if anything they become more pronounced. There is a need to compromise, but in the end it guarantees the survival of diversity.

At the end of May 2013, the French and German leaders together floated ideas on a eurozone budget, a bank resolution regime, contracts for economic reform and a permanent president for the Eurogroup.¹⁰⁹ The *Economist's Charlemagne* interpreted this as a possible revival of the Franco-German alliance,¹¹⁰ but other commentators believe the Franco-German engine is broken. François Heisbourg¹¹¹ attributes the loss of impetus in the integration process mostly to the “loss of intimacy” between France and Germany, their unwillingness to overcome differences and Germany’s rediscovery of its national interests, “which no longer needed to be systematically set in a European framework implying French agreement.”¹¹² Heisbourg thinks a serious Franco-German split is unlikely, but that there will be continuing tensions between the two states’ longer-term aims for the EU. Trouille and Maclean assert that a well-functioning Franco-German axis is essential for European integration because “each time Franco-German cooperation has been subject to tension ... this has resulted in periods of stagnation for Europe”.¹¹³ They also note that “Paradoxically, it would seem that successful European integration may actually enfeeble the Franco-German partnership in rendering it less critical to the integration process”.¹¹⁴

Heisbourg believes the UK holds the trump card, and considers the possible effect on the Franco-German motor if the UK were to leave the EU:

¹⁰⁹ Joint letter: [France and Germany – Together for a stronger Europe of Stability and Growth](#), May 2013

¹¹⁰ “[Crank up the motor: The Franco-German partnership has spluttered back to life. This time that may not necessarily be good](#)”, *Economist* 8 June 2013

¹¹¹ Chairman, International Institute for Strategic Studies

¹¹² “[The union at Europe’s heart is frayed](#)”, *Financial Times*, 20 January 2013

¹¹³ Jean-Marc Trouille and Mairi Maclean, “Conclusion: Britain and the Franco-German Axis: Two Plus One, or Three Together?”, in Mairi Maclean and Jean-Marc Trouille (eds), *France, Germany and Britain: Partners in a Changing World*, 2001, p192

¹¹⁴ Mairi Maclean and Jean-Marc Trouille, “Introduction: France, Germany and Britain: Partners in a Changing World?”, in Mairi Maclean and Jean-Marc Trouille (eds), *France, Germany and Britain: Partners in a Changing World*, 2001, p9

If the UK left, France would find herself locked into a situation in which Germany’s distinctive strategic culture and security policy would prevail. This would not be easy to accept for the French, who continue, like the British, to have their own views on international security and the use of force. France could then be tempted to balance the German centre through the systematic practice of countervailing coalitions with the other members of the EU. And, with that, the spirit of the Elysée treaty would be irrevocably lost.

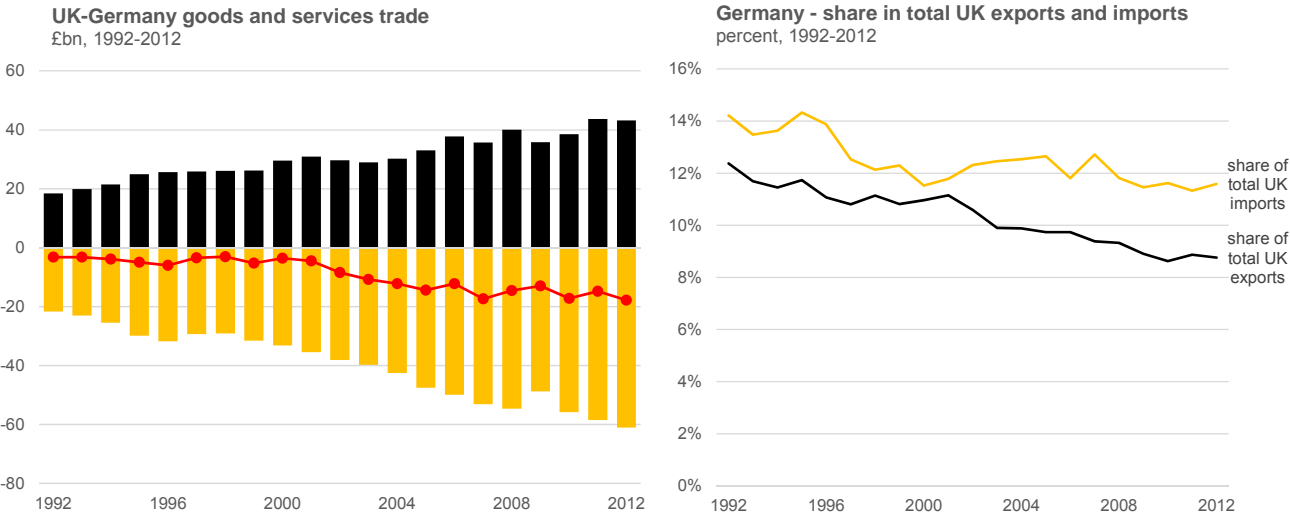
One of Chancellor Merkel’s first acts as she officially starts her third term is a trip to France, the day after being sworn in by the Bundestag.¹¹⁵

6 UK-Germany relations

The UK and Germany’s strong relationship rests not only on historical links but also trade, EU dynamics and other influences. The recent spying allegations do not appear to have significantly diminished that relationship.

6.1 Trade

The importance of Germany in the UK’s export and import ‘mix’ has declined gradually over the past twenty years, but it remains the UK’s second most important export destination (behind the United States) and single most important source of imports:



Source: ONS Pink Book 2013 dataset

With exports equivalent to 52% GDP in 2012, as compared with 31% in the UK, Germany’s is the more trade-orientated economy. The UK runs a larger trade deficit with Germany (£17bn) than with any other country except China. This is largely down to a £21bn goods trade deficit that is only partially offset by a £4bn services trade surplus. In particular, the UK runs a large deficit in manufactured goods; indeed, without the trade in road vehicles, the UK’s deficit with Germany would fall to just £5bn.

¹¹⁵ “Merkel to visit Paris on Wednesday”, *EU Observer*, 15 December 2013

UK - top goods exports to Germany

products grouped using SITC 2-digit classification

	£m	% of total exports to Germany
Petroleum & petroleum products	5,161	15.8%
Medicinal & pharmaceutical products	3,799	11.6%
Road vehicles	2,462	7.5%
Power generating machinery & equipment	2,206	6.7%
Other transport equipment	2,025	6.2%
Elec machinery & appliances & parts thereof nes	1,596	4.9%
Miscellaneous manufactured articles nes	1,289	3.9%
Non-ferrous metals	1,215	3.7%
General industrial machinery, eqpt and parts nes	1,130	3.5%
Chemical materials & products nes	856	2.6%

UK - top goods imports from Germany

products grouped using SITC 2-digit classification

	£m	% of total imports from Germany
Road vehicles	14,577	28.1%
Medicinal & pharmaceutical products	3,310	6.4%
General industrial machinery & eqpt & parts nes	2,691	5.2%
Ele cmachinery & appliances & parts thereof nes	2,493	4.8%
Power generating machinery & equipment	2,017	3.9%
Miscellaneous manufactured articles nes	1,969	3.8%
Non-ferrous metals	1,810	3.5%
Office machines & adp machines	1,651	3.2%
Machinery specialized for particular industries	1,400	2.7%
Professional, scientific & controlling instruments nes	1,253	2.4%

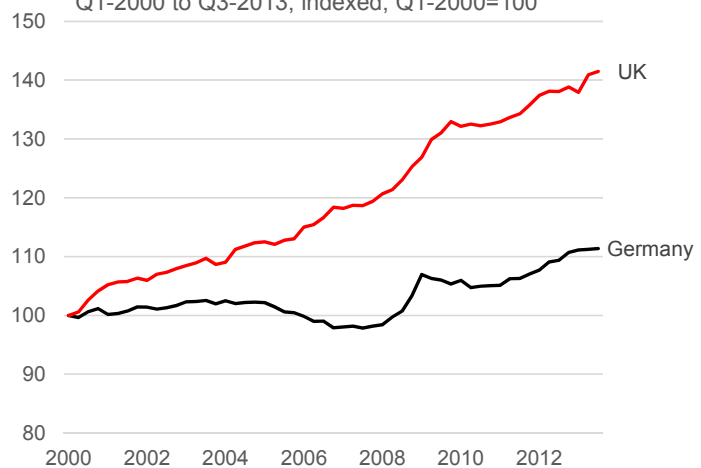
Note: nes = not elsewhere specified

Source: uktradeinfo database

The rise in the UK's trade deficit with Germany during the 2000s was driven partly by its losing comparative advantage in manufacturing to emerging economies. In particular, exports of computers, telecommunications and photographic equipment to Germany fell by 35% in cash terms between 1997 and 2012. Meanwhile, German manufactured goods retained their competitiveness, with UK imports of road vehicles from Germany more than doubling over this period, and imports of power-generating equipment almost trebling. Contributing to these trends was the UK's general loss of competitiveness *vis à vis* Germany, as evidenced by rising relative unit labour costs (see chart, right).¹¹⁶ The depreciation in sterling against the euro following the 2008 financial crisis has not significantly improved the trade balance, although it is worth noting that the UK's trade deficit with Germany has not increased significantly since 2007.

Labour costs per unit of output - UK vs Germany

Q1-2000 to Q3-2013; indexed, Q1-2000=100



Source: OECD.stat (early estimates of quarterly unit labour costs)

At the end of 2011 (the latest figures for which data are available), direct investment by German companies in the UK was £49.2bn (6.4% of total inward investment in the UK), and corresponding direct investment by UK companies in Germany was £20.9bn (1.9% of total UK outward investment). Both these figures have declined substantially since the 2008 financial crisis.¹¹⁷

6.2 Views on EU integration

The German and UK Governments have long been at odds over fundamental issues of EU integration and economic policy. The UK tends to see the EU as “a marketplace and forum

¹¹⁶ For a discussion of some of the limitations of using unit labour costs as a means of understanding competitiveness developments, and the importance of ‘unit capital costs’ in such an analysis, see Levy Economic Institute Working Paper 651 *Unit labour costs in the eurozone: the competitiveness debate again* (Feb 2011)

¹¹⁷ ONS [Foreign direct investment involving UK companies, 2011](#) (MA4)

for loose cooperation” whereas on the German side “there is still a strong belief in joint regulation and in pursuing a shared common good”.¹¹⁸

Nevertheless, at the beginning of 2012, some commentators thought an Anglo-German partnership was set to replace the Paris-Berlin axis, and that *Merkameron* would replace *Merkozy*, particularly after the Socialist, François Hollande, became President of France in May 2012. David Cameron visited the German Chancellor Angela Merkel in April 2013, taking his family with him for the first time on an official visit. The main topic for discussion was the future of the EU. *The Times* suggested that his visit showed that a growing band of people in Germany support his “tough approach” to the EU, and that ahead of September’s federal elections Merkel looked “quite tempted to align herself with Britain’s open market ideas, rather than those of protectionist France”.¹¹⁹ However, there is no mention of EU treaty change in the coalition agreement, so no obvious opportunity to press for powers to be returned from Brussels to Westminster; and the SPD is less supportive of this than Merkel.

“Angela and I agree about many things: we both think getting rid of budget deficits is important, we both believe in free enterprise, we are both members of NATO, we have lots that we agree about, but we don’t agree for instance about nuclear power or the fiscal compact.”
David Cameron, June 2012

6.3 Wider influence

Brian Groom in the *Financial Times*¹²⁰ has argued that the UK’s political leaders draw inspiration from Germany in many areas:

- Business Secretary Vince Cable’s state-backed business bank is inspired by Germany’s Kreditanstalt für Wiederaufbau, as is the Green Investment Bank
- George Osborne has boosted state export credit guarantees, something the Germans do more consistently.
- The coalition Government is creating Catapult technology centres, where businesses and researchers work together on innovation, modelled on Germany’s Fraunhofer institutes, whose creations include the MP3 digital music format.
- The government’s apprenticeships initiative takes the UK a little closer to the German vocational training system.
- John Cridland, director-general of the CBI employers’ group, is calling for Britain to build its own version of the Mittelstand, a backbone of medium-sized companies that export, innovate and generate growth
- Ed Miliband says a Labour government would set up a network of regional banks to supply business with the credit it needs, modelled on Germany’s Sparkassen.

Conversely, the UK is often seen as the strongest ‘soft power’ in Germany. But this still leaves room for differences: when Cameron visited Merkel in April 2013, she raised concerns about British sovereign territories used as tax havens by the rich.¹²¹

6.4 Spying allegations

Allegations in November 2013 that the UK had a secret ‘listening post’ on the roof of its embassy in Berlin threatened to disturb Anglo-German relations. The press reported that the

¹¹⁸ Roderick Parkes, “[Britain’s Commitment Problem is Germany’s Commitment Problem](#)”, Carnegie Europe, 21 March 2012

¹¹⁹ Thomas Kielinger, “[Cameron-Merkel, a courting couple](#)”, *The Times*, 15 April 2013 [via Pressurop]. See also “[Cameron and Merkel to discuss EU reform in Germany](#)”, *Guardian*, 12 April 2013

¹²⁰ Brian Groom, “[They all want to be German now](#)”, *Financial Times*, 15 April 2013

¹²¹ “[Angela Merkel urges David Cameron to crack down on tax havens](#)”, *Guardian*, 14 April 2013

British ambassador had been “called in” for the first time since the end of the Second World War, for a warning that any interception of data by intelligence services from a diplomatic facility would be in violation of international law. A Downing Street spokesman insisted that the ambassador had simply been “invited” to the foreign ministry.¹²²

The allegations came a week after the German Foreign Ministry had ordered the US ambassador to discuss revelations in the NSA scandal that the American intelligence agency had been monitoring Chancellor Angela Merkel's mobile phone communications for years.

7 Germany's wider foreign policy

There are unlikely to be major changes to Germany's foreign policy under the grand coalition. The Foreign Ministry has lost much of the glamour it had when the minister was also vice-chancellor, and now all decisions go through Chancellery (although that has staff seconded from the Foreign Ministry).

7.1 A “sleepwalking giant”?

The big question is whether Germany should or should not take a more active role in the world. In a speech in October 2013 to mark the 23rd anniversary of German unification, its President Joachim Gauck asked whether Germany was pulling its weight:

Five years after the end of the Second World War, the political theorist Hannah Arendt wrote: “It looks as if, having been denied world domination, the Germans have fallen in love with powerlessness”. Germany had reduced Europe to ruins and destroyed millions of human lives. What Arendt described as powerlessness had a political dimension to it. A defeated Germany had to earn new trust and regain its sovereignty.

On a visit to France a few weeks ago, I was confronted with the question: do we Germans remember our past so actively because we seek an excuse not to deal with the world's contemporary problems and conflicts? Are we letting others foot the bill for our insurance policies? Of course we have grounds to contradict this view. The *Bundeswehr* is helping to keep the peace in Afghanistan and Kosovo. Germany is supporting the International Criminal Court, is promoting a global climate agreement and is actively engaged in development cooperation. Germany's contributions and guarantees are helping to stabilise the eurozone.

Nevertheless both in our country and elsewhere voices calling for more German engagement in international politics are growing louder. The calls come from a Polish Foreign Minister as well as professors from Oxford or Princeton. They view Germany as a sleepwalking giant or a spectator of global affairs. One of my predecessors, Richard von Weizsäcker encourages Germany to more strongly advocate a European foreign and security policy, he sees Germany as a role model.

This begs the question – is our engagement on a par with the weight that our country carries? Germany is populous, lies at the heart of the continent and is the world's fourth largest economy. The strength of our country lies in the fact that we have made friends of all of our neighbours and become a reliable partner in international alliances. Integrated and accepted as such, Germany was able to secure freedom, peace and prosperity. Maintaining this political

¹²² “Germany calls in Britain's ambassador to demand explanation over 'secret Berlin listening post’”, *Independent*, 6 November 2013

and military stability in uncertain times and ensuring its future viability is our most important concern.

Therefore it is right if, along with others, we ask ourselves – is Germany fully living up to its responsibility with regard to our neighbours in the East, the Middle East and the southern Mediterranean? What is Germany doing to help aspiring emerging countries become partners on the international stage?

And if we seek to a permanent seat on the United Nations Security Council – what role are we prepared to play in crises in far-flung regions of the world? Our country is not an island. We should not cherish the illusion that we will be spared from political and economic, environmental and military conflicts if we do not contribute to solving them.

I do not like the idea that Germany plays itself up to impose its will on others. Yet neither do I like the idea that Germany plays itself down to eschew risks or solidarity. A country which views itself as part of a whole in this way should encounter neither rejection amongst us Germans, nor mistrust among our neighbours.¹²³

Elsewhere in Europe the feeling is that Germany has become too powerful for the luxury of standing on the sidelines. In 2011 Radel Sikorski called for Germany to lead:

I will probably be the first Polish foreign minister to say so, but here it is: I fear German power less than I am beginning to fear German inactivity. You have become Europe's indispensable nation. You may not fail to lead: not dominate, but to lead in reform.¹²⁴

7.2 US-Germany relations

The most important future project for Germany-US relations is the [free trade agreement](#) between the EU and the US.¹²⁵

The **US phone tapping scandal** initially threw this into doubt. It prompted Merkel to demand confidence-building measures from Obama, for example allowing Germany into US intel-sharing group. The coalition agreement refers to the US restoring trust with a significant commitment, and calls for EU controls on passing telecoms data to third countries, as well as a legally-binding agreement against espionage.

But Merkel has blocked calls for an investigation and, despite her initial anger, now seems intent on returning to good working relations.¹²⁶

7.3 Other partners

The coalition agreement signals a particular focus on the EU's eastern neighbours.

It calls for a "special relationship" between the EU and **Russia**, devoting almost a page to it. This would include support for some Russians to travel visa-free to the EU, in return for Russia modernising and making progress with the frozen conflicts in the EU's eastern neighbourhood, particularly Transdnistria.¹²⁷

¹²³ [Speech to mark the Day of German Unity](#), 3 October 2013

¹²⁴ Radoslaw Sikorski, "[I fear Germany's power less than her inactivity](#)", *Financial Times*, 28 November 2011

¹²⁵ See Gavin Thompson, "[The Transatlantic Trade and Investment Partnership \(TTIP\)](#)", Commons Library Standard Note 6688, 8 November 2013

¹²⁶ "[German Chancellor Makes Plea for Ukraine](#)", *New York Times*, 18 November 2013

¹²⁷ "[German coalition draft: More powers for EU foreign service](#)", *EU observer*, 26 November 2013

Chancellor Merkel's first speech to the Bundestag since her re-election was largely devoted to supporting the EU's efforts to forge closer partnerships with six **former Soviet republics**: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine.¹²⁸

Germany would continue to support EU enlargement in the western Balkans, as long as the accession criteria are strictly met. But a more nuanced statement on Turkey's accession sees the negotiations as "open-ended" and returns to suggestions of a "privileged relationship" instead of accession.¹²⁹ Turkey's enlargement talks, suspended until after the German elections, have now restarted.

Merkel has been publicly unconditional in support of Israel. The coalition agreement reiterates Germany's "special responsibility towards Israel as a Jewish and democratic state and its security", and its goal of a two-state solution. Germany's outward support apparently allows Merkel to be tougher in private on particular issues: for example, German public opinion is against settlements.¹³⁰

The coalition agreement also refers to links with Japan, China, India and Brazil in particular, as well as other partner countries in Africa and Latin America.

7.4 A seat at the table?

Germany has for some time sought a place on the UN Security Council (UNSC).

On the 40th anniversary of Germany joining the UN, the German Ambassador to the United Nations, Peter Wittig, [spoke](#) of Germany's role in the UN, its financial commitment (Germany is one of the highest contributors to the UN budget) and its active engagement in UN human rights bodies. Germany was a temporary member of the UNSC in 2011-12 but had launched a campaign in March 2011 for a UN General Assembly resolution supporting its aim (and that of Brazil, India and Japan) of a permanent UNSC seat. So far the four have not secured the support of two-thirds of UN membership needed, and diplomatic observers believe Germany's simultaneous abstention in the vote on intervention in Libya may not have helped.

Richard Gowan, of the European Council on Foreign Relations, evaluated Germany's membership of the UNSC:

By Germany's last day on the Security Council on 31 December 2012, it had arguably dispelled the myths that had grown up around its tenure. It had not followed a strategy of deliberate alignment with big non-Western powers. It had demonstrated its enduring influence at the UN with success in its campaign for a seat on the Human Rights Council. And it had shown itself willing to risk controversy with other major powers by raising contentious topics in the Security Council. In raising these topics it had also demonstrated a consistent belief in the need to improve the UN's performance through gradual change, whether in dealing with specific problems like Afghanistan or grand strategic issues like climate change.

¹²⁸ ["German Chancellor Makes Plea for Ukraine"](#), *New York Times*, 18 November 2013

¹²⁹ ["German coalition draft: More powers for EU foreign service"](#), *EU observer*, 26 November 2013

¹³⁰ *The German Election: a verdict on Europe?* Chatham House, 24 September 2013

This was certainly a more impressive performance than most temporary members of the Security Council. It is unlikely to hasten Germany's progress towards a permanent seat on the Council.¹³¹

Ultimately, whatever Germany's response to foreign crises, Security Council reform requires the consent of its five permanent members – the US, Russia, France, the UK and China – who are unlikely to cede power.

8 Germany's defence policy

8.1 Future responsibilities

Germany has come under pressure from other EU leaders to take a more active role militarily. Most German politicians agree, however, that a diplomatic solution to crises, including most recently the Syrian crisis,¹³² is preferable to military intervention. More than 6,000 German soldiers, police officers and civilians are currently serving in UN-mandated peace-keeping missions abroad, but there is an on-going debate about German participation in military interventions under the auspices of NATO or the UN, and about how German militarisation might affect power dynamics in Europe.

“Germany's place in the world is characterised above all by our interests as a strong nation in the centre of Europe and by our international responsibility for peace and freedom”.

Ministry of Defence, May 2011

In the last German government, the Defence Minister, Thomas de Maizière (CDU), and Foreign Minister, Guido Westerwelle (FDP), differed over Germany's responsibilities on the world stage,¹³³ but military restraint has remained a cornerstone of German foreign policy, along with crisis prevention, conflict resolution and peace-building, as set out in the [2004 Action Plan](#) drawn up by the last grand coalition.

8.2 Grand coalition policies

The grand coalition parties hold few differences on foreign and security policy, and although the coalition agreement contains little that is new, the language in this section is “less tepid” than elsewhere.¹³⁴

The coalition agreement pledges that the Government will “adopt new initiatives to strengthen and deepen the Common Foreign and Security policy” after the European Council summit in December 2013. It includes a call for an annual European Council session on security and defence and for a strategic debate about the purpose of EU foreign relations.

The German Government will support EU defence integration and the establishment of a European army as a long-term goal. The coalition agreement does not say that the Bundestag's right to authorise the deployment of German armed forces will be amended, but passes the issue to a commission which will provide options and models while assuring the EU partners that Germany is a reliable contributor to military operations. However, the coalition feels that the EU should only intervene in its geographic neighbourhood, while conflicts further afield should be left for other regional organisations.

¹³¹ German Review on the United Nations, Vol. 61, No. 1, 2013, “[Germany and the Security Council: Neither too strong nor too weak](#)”.

¹³² See [Deutsche Welle 13 September 2013](#), “Calls for diplomacy drown out 'war cries'”.

¹³³ See [Spiegelonline](#), 22 January 2013, “[Germany Abroad: 'Mealy-Mouthed' Foreign Policy Angers Allies](#)”.

¹³⁴ “[Germany's foreign policy lacks big ideas](#)”, [Guardian](#), 29 November 2013

The coalition agreement supports Germany's continued use of military drones, for instance in Afghanistan, and calls for more support for the European development of drones, as well as a law allowing drones to fly in EU airspace.¹³⁵

The agreement endorses the idea of common use of national military capabilities in the EU, under its 'pooling and sharing' concept, but only as far as it is reasonable and possible. It applies the same standard to NATO's similar 'smart defence' initiative.

Henrik Heidenkamp has explored the likely direction of defence policy under the grand coalition:

- The SPD will seek to advance the EU's Common Security and Defence Policy and is likely to push for a stronger German influence.
- Both the CDU/CSU and SPD have acknowledged the need for a strategic security and defence policy document, akin to the British National Security Strategy.
- The SPD is likely to demand more restrictive controls on German defence exports to countries with human-rights deficits, and a strengthening of the German parliament's scrutinising role in this regard. But both Angela Merkel and former Minister of Defence Thomas de Maizière have voiced their reluctance to change the current defence export-control system.¹³⁶ (*Jane's Defence Weekly* also notes that political pundits in Berlin expect parliament to be involved in any future arms exports, as the Social Democrats called for export changes in their election manifestos).
- The grand coalition has enough seats in the Bundestag to potentially make two important changes to the German Basic Law. The first would be to revise or abolish Article 87b of German Basic Law which separates the Bundeswehr into the civilian defence administration and the armed forces. The second would be to gradually revise the 2005 Parliamentary Participation Act, which requires the Government to gain a Bundestag mandate every time it wishes to send armed soldiers on operations abroad.¹³⁷

The first indication of any shifts in Government thinking towards defence may come at the European Council meeting on 19-20 December 2013. The meeting will focus on the EU's Common Security and Defence Policy (CSDP). The attitudes of Germany, France and the UK will be critical if progress is to be made on strengthening the CSDP, improving the availability of civilian and military capabilities, and strengthening Europe's defence industry, but the prospect of achieving significant progress at the summit has been viewed by many as difficult.¹³⁸ Daniel Keohane of the think-tank Friderici suggests the "CSDP will never do more than the German political market can bear."¹³⁹

8.3 Defence cuts and restructuring

The Federal Defence Forces of Germany have recently embarked on "the most radical overhaul of the Bundeswehr in its history."¹⁴⁰ The armed forces are shifting to a smaller,

¹³⁵ ["German coalition draft: More powers for EU foreign service"](#), *EU observer*, 26 November 2013

¹³⁶ H Heidenkamp, "Obligation of power: German defence policy under a Grand Coalition", *RUSI Newsbrief*, November 2013

¹³⁷ H Heidenkamp, "Obligation of power: German defence policy under a Grand Coalition", *RUSI Newsbrief*, November 2013

¹³⁸ See Commons Library Standard note, [The EU's Common Security and Defence Policy: A Fresh Impetus?](#), SN6771, 4 December 2013

¹³⁹ ["Great Hopes, Dampened Expectations: the EU before the CSDP Summit"](#), *German Council on Foreign Relations*, 6 November 2013

¹⁴⁰ ["Germany prepares its military for the 21st century"](#), *Deutsche Welle*, 16 May 2013

professional force that is no longer reliant on conscription and is committed to deploying abroad in areas of crisis and conflict.

The German Government announced its restructuring plans in May 2011 in its [Defence Policy Guidelines](#).¹⁴¹ It identified seven broad tasks for the Bundeswehr:

- territorial defence
- international conflict prevention and crisis management
- participation in military tasks with the EU Common Security and Defence Policy
- homeland security contributions
- search and rescue operations
- defence diplomacy
- humanitarian relief abroad

The Guidelines expect Germany to be able to assume command responsibility as a framework (lead) nation and provide the required capabilities for the entire task spectrum (ie remaining flexible and not limiting options by reducing capabilities). The Armed Forces must be able to deploy 10,000 military personnel in different theatres at the same time.¹⁴²

The total armed forces will be cut to 185,000 (from 220,000). This will include 170,000 regular soldiers and between 5,000 and 15,000 military service volunteers.¹⁴³ Over 30 bases will be closed.¹⁴⁴ The Bundeswehr will continue to be divided into the Army, Air Force, Navy, Joint Support Service and Joint Medical Service. The restructuring will be complete by 2017.

Germany suspended conscription in 2011, having decided in November 2010 to move towards a professional, all-volunteer military. The Military Law Amendment Act came into force in July 2011, ending more than 50 years of compulsory military service. Compulsory service remains enshrined in the German Basic Law but conscripts will no longer be drafted.¹⁴⁵

The Ministry of Defence is required to cut its budget by €8.3 billion by 2015. The defence budget for 2012 was down to €31.68 billion and will be reduced to €30.43 billion by 2015.¹⁴⁶

8.4 German troops abroad

Germany's involvement in Afghanistan, where it is the third largest contributor to the International Security Assistance Force (ISAF), will continue after the end of combat operations in 2014. Germany has pledged between 600 and 800 troops for training, advising and supporting purposes for two years, reducing to 200-300 troops in 2017.¹⁴⁷ Fifty-four German soldiers have died while serving in Afghanistan.¹⁴⁸

Germany is also involved in the EU-led anti-piracy Operation Atalanta off the Horn of Africa and the NATO-led Operation Active Endeavour in the Mediterranean Sea, as well as UN missions in South Sudan, Sudan, Lebanon and Kosovo.¹⁴⁹ It has said that it could provide

¹⁴¹ "Defence policy Guidelines", *German Federal Ministry of Defence*, May 2011

¹⁴² Federal Ministry of Defence, *Defence Policy Guidelines 2011*, 18 May 2011

¹⁴³ "Outlook: The Bundeswehr of the future", *Federal Ministry of Defence*, 18 May 2011

¹⁴⁴ "Bitter Military Reform: Defense Ministry Releases Base Closure List", *Der Spiegel International*, 26 October 2011

¹⁴⁵ "From a conscript to a volunteer army", *Federal Ministry of Defence*, 1 July 2011

¹⁴⁶ "2012 defence budget", *Federal Ministry of Defence*, 12 July 2011

¹⁴⁷ "Germany set troop numbers for post-2014 Afghan mission", *Jane's Defence Weekly*, 19 April 2013

¹⁴⁸ A detailed examination of Germany's deployment to Afghanistan can be found in Theo Frarell, Frans Osinga, James A. Russell, *Military Adaptation in Afghanistan*, 2013, chapter 8

¹⁴⁹ A full overview of German military deployments overseas is available on the [Federal Ministry of Defence website](#)

some aircraft to transport French troops for the mission in the Central African Republic, but that as these would not go into the conflict zone they would not need parliamentary approval.¹⁵⁰

Germany abstained from the Security Council vote on Resolution 1973 in March 2011 (along with Russia, China, India and Brazil) and declared that it would not take part in the military action in Libya.

8.5 German-UK defence relations

The dominant theme for German-UK defence relations for the foreseeable future is the planned withdrawal of all the UK forces from Germany by 2020.

British forces have been permanently stationed in Germany since 1945, but the UK Government decided, in the Strategic Defence and Security Review of 2010, that there is no longer any operational requirement for this. Most of the remaining 15,000 troops currently in Germany will therefore return to the UK by the end of 2016.¹⁵¹

The local economy in Germany around the British bases is likely to suffer: British forces reportedly contribute around £1.3bn a year to the local economy, and in Bergen (Lower Saxony), for example, a third of the local economy depends on the UK forces.¹⁵² Under the NATO Status of Forces Supplementary Agreement, the UK is obliged to pay reinstatement costs to the German Federal government, but the exact nature of those residual costs has yet to be determined. The UK Government says it is currently negotiating a “final, one-time settlement of all financial claims” relating to its decades-long presence.¹⁵³

The Defence Secretary Philip Hammond visited Germany in 2012. In a speech at the German Council on Foreign Relations he urged Germany to contribute more to international operations and generate the “political will and public support” for the deployment of military resources more widely in the future in support of NATO operations. He argued that America’s pivot to Asia-Pacific means Europe needs to take on responsibility for its “own backyard.” He said the UK would welcome an enhanced defence and security relationship with Germany.¹⁵⁴

9 Energy and environment debates

Energy policy played a significant part in the 2013 election, not least because state incentives to promote renewable energy and replace nuclear had increased domestic energy bills.

Following Merkel’s election success, reporters speculated that the SPD might demand cuts to costly incentives for green power in return for their political support.¹⁵⁵ The coalition agreement commits the government to Merkel’s promised nuclear phase-out and a transition to renewable energy, while support for renewables is set to be simplified.¹⁵⁶ It stipulates that 55-60% of energy production should be from renewable sources by 2035. This is slightly nearer to Merkel’s pre-election promise of 50-55% than to the SPD’s 75%. Subsidies for

¹⁵⁰ “France begins military operation in Central African Republic”, *Deutsche Welle*, 6 December 2013

¹⁵¹ For more on this topic see L Brooke-Holland, *UK withdrawal from Germany: the end of an era*, House of Commons Library Standard Note SN06746, 8 November 2013

¹⁵² “Collateral damage: British troops are set to finally leave Germany, but what will be the effect of their departure?”, *Independent*, 26 March 2013

¹⁵³ HC Deb 10 September 2013 c670W

¹⁵⁴ “Get over the war, Hammond tells Germany”, *The Daily Telegraph*, 3 May 2012; “Hammond – UK would welcome enhanced defence relationship with Germany”, *Ministry of Defence*, 3 May 2012

¹⁵⁵ <http://oilprice.com/Alternative-Energy/Renewable-Energy/Renewable-Power-in-Germany-Gets-Boost-from-Merkels-Re-election.html>

¹⁵⁶ <http://energytransition.de/2013/11/grand-coalition-agreement-55-to-60-renewables-by-2035-and-more/>

onshore wind farms would be reduced, and plans to expand offshore wind farms would be moderated. The SPD demanded concessions on EU climate change targets, which have lagged behind other EU Member States.¹⁵⁷

The balance between nuclear power and renewable energy sources has been important to German politics over the last decade. Germany's current stance on nuclear power had its roots in the decision in 2000 by the SPD-Green coalition government to phase out the use of nuclear energy by 2020. When Chancellor Merkel was elected in 2009, her government passed a law extending the operating lives of the country's remaining 17 nuclear power plants by a further 8–14 years each.¹⁵⁸ But support for the nuclear industry came with a high political price: following the Fukushima accident, her party lost power in its traditional stronghold of Baden-Württemberg in state elections on 27 March 2011, to the Greens.¹⁵⁹ Soon afterwards, Merkel (uncharacteristically abruptly) changed her policy, announcing the immediate closure of eight nuclear plants in Germany, with the rest to be shut down by 2022. At the same time, the government made it clear that it would stick to the objective of reducing greenhouse gas emissions by 40% by 2020 (compared with 1990 levels) and by 80 percent by 2050.¹⁶⁰ Merkel was reported to have been criticised by nuclear officials and the German opposition for her about-turn on nuclear policy, which was seen as driven by regional elections.¹⁶¹ The *Financial Times* reported in March 2011 that four nuclear power companies were preparing lawsuits against the German government following its decision to idle seven of the country's 17 nuclear-power stations.¹⁶²

The UK government, by contrast, wants to continue with nuclear power. It has embarked on a process to reform the energy market, with 'Contracts for Difference' (CfD) to provide long-term support for all forms of low-carbon generation – including nuclear, renewables and, potentially, carbon capture and storage technology – by guaranteeing the income a generator gets. CfDs will be introduced fully when the *Energy Bill* receives Royal Assent, but preliminary arrangements [have allowed UK Government and EDF Group](#) to reach a commercial agreement on the terms of an investment contract for a new nuclear power stations at Hinkley Point in Somerset.

As for targets, the UK has an [EU target for renewable energy](#) of 15% by 2020, a significant proportion of which is expected to come from electricity. But more important to the UK are the [Carbon Budgets](#) set under the *Climate Change Act 2008* which ultimately require the UK – like Germany – to reduce its greenhouse gas emissions by 80% from 1990 levels by 2050.

10 What next for Germany?

10.1 Will the new minimum wage boost average incomes, or cost jobs, or both?

The introduction of a federal minimum wage of €8.50 per hour, to be phased in from 2015-2017, has led to some (including the Cologne Institute for Economic Research) to argue that the minimum wage will cost jobs, particularly in eastern Germany where wages are often lower than in the west.¹⁶³ Others, including the Macroeconomic Policy Institute, disagree and believe it will boost incomes of millions of employees.¹⁶⁴

¹⁵⁷ [Spiegelonline](#) 24 September 2013, "["Merkel Must Take Action': SPD Demands a New Europe Approach](#)".

¹⁵⁸ [German Bundestag](#), [Atomkraftwerken zugestimmt](#), October 2010

¹⁵⁹ [Strategic Comments](#) 16 May 2011

¹⁶⁰ DW, [What exactly is Germany's 'Energiewende'?](#), January 2013

¹⁶¹ <http://euobserver.com/9/32027/?rk=1>

¹⁶² <http://www.ft.com/cms/s/0/3d2319bc-588f-11e0-9b8a-00144feab49a.html#axzz1MVVbGLUf>

¹⁶³ Ibid. and "[Streit um den „Kaitz-Index](#)", Cologne Institute for Economic Research, 28 November 2013

¹⁶⁴ "[Economists criticize tame coalition deal](#)", Deutsche Welle online, 28 November 2013

The impact of the new minimum wage on household incomes and unemployment levels isn't likely to be known until at least towards the end of the government's four-year term. The debate on the perceived success or failure of the minimum wage, and which political party takes the credit or blame for this, could form a crucial element of the next general election campaign in 2017.

10.2 What will Germany do if the eurozone crisis flares up again?

Despite the recent period of stability, many economists do not believe that we have seen the end of the eurozone crisis. Little has been done, so the argument goes, to fundamentally resolve the crisis.

Promises by the European Central Bank to do "whatever it takes" to keep the eurozone together, further loans and slightly-better economic prospects in some of the countries directly affected have eased the immediacy of the crisis. However, weak banking sectors, high unemployment and above all, high debt levels, suggest that at some point markets will begin to question whether the crisis-hit countries will eventually be able to exit the bailout programmes and have enough confidence from investors in order to service their debts at affordable interest rates.¹⁶⁵

The *Financial Times's* associate editor, Wolfgang Münchau, concludes that the German government will be forced to deviate from the coalition agreement and agree to steps it has so far considered unpalatable in order to keep the eurozone together.¹⁶⁶ These include letting the European Central Bank buy up "large chunks of eurozone debt"; setting up a common fund to provide a back-stop to failed European banks as part of a banking union; and/or pooling together eurozone Member States' debts (both low-risk and high-risk), in order to improve the attractiveness of the debt to investors. If this analysis is on the mark, the political consequences in German could be enormous.

10.3 Will Germany take a stronger lead in Europe and internationally?

With its dominant economy, pressure from other governments, encouragement from its President, and a large majority in the Bundestag, Germany could be poised to take a more leading role both in the EU and internationally.

Despite some suggestions that Merkel could be open to returning some EU powers to national governments, which would receive public support, the coalition agreement says nothing about treaty changes, and the SPD does not take this approach. Ulrike Guerot and Victoria Kupsch doubt that Germany will drive EU reform

How can Germany be a driving force in Europe when it still favours national interests and party politics over progress on the EU-level?¹⁶⁷

But Ulrich Beck¹⁶⁸ commented that in a third term as Chancellor, there would probably be "a silent turn to a politics of more Europe" and that "switching positions is the key element of Merkiavelli's power politics".¹⁶⁹

Despite signalling that it does not want to be involved militarily far from home, Germany is turning further afield for economic partners. Links with countries in Asia, Africa and Latin

¹⁶⁵ Ireland on 15 December 2013 became the first country to exit the bailout programme

¹⁶⁶ Wolfgang Münchau, "[Germany's coalition will have to break promises](#)", *Financial Times*, 1 December 2013

¹⁶⁷ *Open Democracy*, "[A new German government: but what about that new German politics for Europe?](#)" 28 November 2013

¹⁶⁸ Professor of sociology at Ludwig-Maximilian University, Munich, and London School of Economics

¹⁶⁹ [The Guardian 2 September 2013](#)

America may become more important, if Germany finds support for them more rewarding than for the southern eurozone countries.

Germans have generally supported Merkel's reluctance to be involved in foreign military interventions. Its limited offer of help for French operations in the Central African Republic suggests that the government is not willing to take a more interventionist stance, at least at such a distance. But if the commission looking into the Bundestag's power to authorise military force recommends constitutional changes, this could signal a shift. Will the restructured Bundeswehr then be able to fulfil its mandate to participate in EU military operations and international crisis management?

Without major shifts from the permanent members of the UN Security Council, as well as stronger signs of its willingness to participate in international military operations, Germany is unlikely to get its longed-for permanent seat on the Council in the medium term.

10.4 How will the government fare without a strong parliamentary opposition?

One of the requirements of a healthy democracy is a strong opposition. Whilst there is likely to be at least some significant internal disagreement in the governing parties, the only actual opposition comes from the left (Die Linke and the Greens), who between them have only 127 seats. And yet the government has had to move to the left, at least on some issues, in order to get the SPD's agreement to a coalition. Will the leftward bias of the parliamentary opposition cause the government to move further towards or away from the left?

Norbert Lammert, the Bundestag's re-elected speaker, has pledged to reinforce the rights of the opposition against a grand coalition.¹⁷⁰ But if the government is not challenged effectively inside parliament, will this open up a new space for opposition from outside the Bundestag?

Unlike both previous grand coalitions, the FDP will not be in the Bundestag to represent right-wing opposition to the government:

During these two grand coalitions, the FDP was in effect an opposition machine anchored in the Bundestag, positioning itself firmly on the right on economic policy and hammering the two governing parties for not doing enough to lower taxes and not cutting welfare spending fast enough. This time, the neoliberal FDP will join other right-wing forces outside the Bundestag. There will be no rightist parliamentarians soaking up and channelling resentment towards the grand coalition. The action will be outside parliament.¹⁷¹

This could lead to other right-wing forces gaining strength. The AfD is likely to grow in support if there are more bail-outs and continuing instability in the eurozone. But there is also the NPD:

German political history shows what happens on the extreme right-wing fringes during a grand coalition. The first post-war grand coalition, starting in 1966, left the door open for the neo-Nazi National Democratic Party of Germany, NPD, to soar out of nowhere to 4.3% in the subsequent 1969 elections, narrowly missing the 5% needed to enter parliament. The same NPD's membership swelled by nearly a fifth during the first year of the next grand coalition, led much later by Merkel herself from 2005 to 2009.¹⁷²

The current court case against the NPD could see it banned, but it could also generate extra publicity and support for it.

¹⁷⁰ "New German parliament takes office", *EU observer*, 22 October 2013

¹⁷¹ Will Wachtmeister, "The rise of the German monster", *Open Democracy*, 29 October 2013

¹⁷² Will Wachtmeister, "The rise of the German monster", *Open Democracy*, 29 October 2013

10.5 Will the coalition last?

The grand coalition has four fifths (504) of the Bundestag's 631 seats, which would seem to allow it to do almost anything it likes. But this very strength could mean that it faces significant internal dissent, as backbenchers either feel that their views are being sidelined by the need for agreement with coalition partners, or consider that their vote is not needed to save the government from parliamentary defeat.

The SPD is more clearly a junior partner in this grand coalition than it was in 2005-09, when the parties had more-or-less equal support. There is a risk of resentment if it holds the CDU/CSU hostage; yet if it gets nothing it could see its support further eroded. Either could lead to the break-up of the coalition in mid-term. What would happen then?

The SPD could at that stage join up with the other parties of the left to form a government. This is looking more likely now that it has changed its policy to be open to a federal coalition with Die Linke if it drops policies such as withdrawing from NATO.

Alternatively the Greens, rejuvenated under a new, younger leadership and learning from the 2013 election, could become a more realistic coalition partner. They have reportedly offered to talk to the CDU about joining a coalition if this one should fail.

Whether or not the coalition stays together might depend on the Bundesrat. At the moment the balance of power is held by left-leaning parties, who might be more supportive of grand coalition policies than they were of the last government. But upcoming Land elections could see the Bundesrat shift to the right, particularly if voters on the right are looking for a way to express frustration with the grand coalition. The next elections to Land parliaments are due in the summer of 2015.¹⁷³

Opinion polls just after the coalition agreement was announced suggest that two-thirds of Germans believe that the grand coalition will last for the full four years. This is more than the 59% who felt at the beginning of the 2005 grand coalition that it would last.¹⁷⁴

10.6 How long will Merkel stay in office?

A flurry of reports in the German press suggested that Angela Merkel might not see out a full four years. She might resign as Chancellor in mid-term, perhaps when she reaches 60 in July 2014, or after ten years in power (September 2015). One reason suggested for her leaving early was to hand the reigns over to a new leader ahead of the next federal elections. David McAllister, the half-Scottish leader of the CDU in Lower Saxony, is often mentioned as a possible successor.¹⁷⁵ But when Merkel appointed the 55-year-old Ursula von der Leyen to the challenging post of Germany's first female Defence Minister, speculation mounted that she had become Germany's "crown princess", unofficially anointed as Dr Merkel's successor.¹⁷⁶

However, Dr Merkel said before the 2013 elections that she wanted to be Chancellor for four years.¹⁷⁷ She even left open the possibility of standing again in 2017. This could mean being Chancellor until she is 67 – Germany's current pension age.

¹⁷³ In Saxony and Thuringia - see German Federal Returning Officer, *Dates of future elections in Germany*, accessed 2 December 2013

¹⁷⁴ "Große Koalition: Mehrheit ist zufrieden mit Vereinbarungen", *Politbarometer*, 29 November 2013

¹⁷⁵ "Germany's Grand Coalition: the key players", *Telegraph*, 27 November 2013

¹⁷⁶ "Merkel cabinet choice set to restart debate on successor", *Financial Times*, 15 December 2013

¹⁷⁷ "Angela Merkel quashes retirement speculation", *Guardian*, 18 August 2013

10.7 What will happen at the next elections?

Germany's next federal elections are due by the autumn of 2017.

According to an opinion poll in November 2013, nearly half of Germans think that the grand coalition will benefit the CDU/CSU, and damage the SPD.¹⁷⁸ They may be thinking of the SPD's experience in the 2009 election, when they suffered huge losses after participating in the previous grand coalition. But there is a contrasting precedent: after Germany's first grand coalition in the 1960s, the SPD under Willy Brandt saw a huge surge in support, leading to 13 years in power (1969 to 1982).

After both previous grand coalitions, Germany's small parties saw a rise in support. The most likely to benefit in 2017 is the AfD, particularly if there is continuing instability in the eurozone. However, the main parties have an opportunity to respond to the challenges posed by new parties, because the high 5% threshold makes it difficult for them to gain enough votes to enter the Bundestag.

Demographic and economic changes could mean that Die Linke loses some of its support, which comes largely from eastern Germany. The FDP, unlike the other main parties, has almost no support in the east.¹⁷⁹ If it is to re-enter the Bundestag in 2017, that may be where it has to look.

¹⁷⁸ "Große Koalition: Mehrheit ist zufrieden mit Vereinbarungen", *Politbarometer*, 29 November 2013

¹⁷⁹ See "Second vote shares FDP by constituencies", German Federal Returning Officer, 2013

Appendix: Germany's electoral system¹⁸⁰

Germany's federal elections combine elements of first-past-the-post and proportional systems. It is a complex but effective **Additional Member System** that maintains fairness and legitimacy, fosters stable coalitions and discourages small fringe parties.¹⁸¹ Often described as "the archetype of a mixed-member proportional system", it has become an influential model for both new and mature democracies.¹⁸²

The starting position is that half of the Bundestag's 598 members are elected directly from Germany's 299 constituencies, and the other half come from the party lists in each of the sixteen Länder. Each voter has **two votes**, and it is the (confusingly named) second vote that determines which party or coalition has a majority and so can make up the government:

- The '**first vote**' is for a constituency representative.
- The '**second vote**' is for a party. This vote has two purposes: it determines how all the seats in the Bundestag are distributed between the parties, and also provides the additional members from the Land party lists.

This allows voters to split their first and second votes, with a 'personal' vote for a candidate representing one party and a vote for the list of a different party to influence a prospective cabinet coalition. The FDP, for example, often encourages its supporters to use their first (constituency) vote in favour of its current coalition partner, and to vote FDP on the list to help it over the 5% threshold.

It is common for candidates to stand in both the constituency and the list seats. Smaller parties are more likely to win seats from the party list, so their effort is concentrated there.

All the parties that have passed the high **5% threshold** of the total number of second votes (or have gained at least three constituency members) get seats in the Bundestag. The seats are allocated in a complex two-stage process:

First, the number of seats to be allocated to each Land is calculated, based on the proportion of the German population living there. Then the seats in each Land are allocated to the party lists in that Land, based on the proportion of second votes each party received.

The minimum number of seats for each party at federal level is then determined. This is done by calculating, for each party Land list, the number of constituency seats it won on the basis of the first votes, as well as the number of seats to which it is entitled on the basis of the second votes. The higher of these two figures is the party's minimum number of seats in that Land. Adding together the minimum number of seats to which the party is entitled in all of the Länder produces a total representing its guaranteed minimum number of seats in the country as a whole.¹⁸³

Within a Land, if a party's total number of allocated seats is more than its number of elected constituency members, all its successful constituency members in that Land take their seats, and they are 'topped up' with candidates from its party list (who are given seats in the order they appear on the list).

¹⁸⁰ See Library of Congress, *Campaign finance: Germany*, 2012; IPU Parline database: [German Bundestag, last elections](#) (accessed 24 June 2013); Deutscher Bundestag, *Election of Members of the German Bundestag* (accessed 15 August 2013)

¹⁸¹ See "Colours of the rainbow", *Economist*, 13 June 2013

¹⁸² Thomas Saalfeld, "Germany, Stability and Strategy in a Mixed-Member Proportional System", in Gallagher and Mitchell (eds), *The Politics of Electoral Systems*, 2005, p210

¹⁸³ [Deutscher Bundestag: Election of Members of the German Bundestag](#) (accessed 12 December 2013)

If on the other hand a party gets more constituency members in a Land than its total number of allocated seats for that Land, it can keep the extra constituency members because all directly elected candidates are guaranteed a seat in the Bundestag. These are called '**overhang seats**' (Überhangmandate), and mean that there can be more than 598 members of the Bundestag. Under a recent change in the electoral law, the other parties then get '**balance seats**' to restore the balance among the parties.¹⁸⁴ This meant that in 2013 there were 33 additional seats, raising the total number of members to its highest ever (631). Therefore 316 seats were needed for a majority.

In the past, there were only small numbers of overhang seats since two major parties – the CDU/CSU and the SPD – dominated the second vote, winning close to 50% each. More recently, they have still won most constituency seats but not the second votes, since there are more parliamentary parties. The discrepancies between their shares of the first and second votes have resulted in more overhang seats. Until 1990 there had never been more than five in any one election:

1990: 6 (all CDU/CSU)

1994: 16 (4 SPD and 12 CDU/CSU)

1998: 13 (all SPD)

2002: 5 (4 SPD and 1 CDU/CSU)

2005: 16 (9 SPD and 7 CDU/CSU)

2009: 22 (all CDU/CSU)¹⁸⁵

2013: 4 overhang seats (all CDU); 28 balance seats (13 CDU, 9 SPD, 4 Die Linke, 2 Green)

In 2013, the Bundestag introduced a new method of distributing the seats between the parties, to comply with requirements set by the Federal Constitutional Court.¹⁸⁶ The court had ruled that the previous method could paradoxically lead to a party receiving more seats in the Bundestag by receiving fewer second votes in a Land (or the other way around).

¹⁸⁴ See "[How many seats in the Bundestag after the elections?](#)", Library of the European Parliament, 18 September 2013

¹⁸⁵ www.wahlrecht.de, [Historisches zu Überhangmandaten](#) (accessed 15 August 2013)

¹⁸⁶ See [Deutscher Bundestag: Election of Members of the German Bundestag](#) (accessed 12 December 2013)