

Merkel's Third Grand Coalition: High Hopes for Europe?

24. April 2018 by [Julian Rappold](#)

During the six months of tedious negotiations to put a German coalition in place, governments across Europe, the French in particular, have been waiting impatiently for a push for European reform from Berlin. The new coalition agreement between the Social Democratic Party (SPD), the conservative Christian Democratic Party (CDU) and her Bavarian sister party CSU explicitly aims to engage with Macron's reform agenda and puts Europe high on the agenda, at least rhetorically. With his speech in front of the European Parliament on 17 April as well as with his bilateral meeting with Chancellor Merkel in Berlin two days later, the French President Emmanuel Macron has made another – and maybe a last - attempt to remember Berlin of this commitment and to finally come up with a Franco-German initiative that could reinvigorate the EU reform debate. However, both internal conflicts within the German coalition government and unbridgeable differences between France and Germany could derail the reform agenda. In addition, even if Berlin and Paris agree on a joint Franco-German initiative, overall consensus in the EU27 is far from certain. If Chancellor Merkel wants to go beyond a muddling-through approach she will have to invest a sizeable share of her political capital at domestic and European level. But is she ready to do so?

All eyes on the June-Summit

The EU Summit on 22/23 March saw the return of Angela Merkel as re-elected Chancellor of Germany. Yet, after only two weeks in power, time was too short for Berlin, to develop a consolidated response to President Macron's reform proposals and to achieve sufficient progress towards joint Franco-German initiatives to stimulate the EU reform debate. Thus, as expected, EU leaders did not address the sensitive areas of European reform, namely the governance of the eurozone, migration and asylum as well as security and defence.

Concrete reform discussions at the highest political level have been postponed to the next summit in June 2018. It could be the last opportunity for Paris and Berlin to seize the momentum for reform and re-energise the European project: the window of opportunity is closing again at the end of this year ahead of the European Parliament elections in May 2019. Thus, after his Sorbonne speech just two days after the German election in September 2017, President Macron's speech in front of the European Parliament and his meeting with Chancellor Merkel in Berlin within just one week have been another and maybe final attempt to trigger a response from the German side in order to give fresh momentum to the EU reform debate. Yet, Berlin's reaction has rather confirmed concerns that an ambitious compromise that could pave the way for reshaping the EU is unlikely. There are several reasons that reaffirm that assumption:

Domestic constraints

The Grand Coalition devoted the first chapter of its coalition agreement to the EU, indicating a strong commitment to Europe. Indeed, Germany's partners responded full of hope, particularly when measuring the document against the ambitions of a potential 'Jamaica coalition' of Conservatives, Liberals and Greens, whose negotiations had failed in November 2017.

Yet, in substance the coalition agreement remains vague and shallow on major issues leaving much space for interpretation. The fact that the grand coalition has not drawn any red lines allows the German government more flexibility in finding an agreement with Paris and the other 25 Member States. However, it also indicates that the coalition partners have not yet moved beyond a mere declaration of intent. On major topics such as migration and the

future of the Eurozone, the coalition partners have not managed to reconcile their diverging positions.

Overall, the Social Democrats seem to be more open to Macron's proposals. Indeed, Germany's partners have placed high hopes in particular on the fact that the SPD managed to secure the Finance Ministry. Given the power with which the conservative Wolfgang Schäuble shaped the agenda of the Eurogroup in the past eight years, being the essential figure in the European crisis management during the European economic and debt crisis, expectations have been high that Berlin might loosen its insistence on structural reforms and fiscal consolidation. Yet, right at the beginning, Olaf Scholz reaffirmed that he will hold on to his predecessor's principles only allowing scope for minor adoptions. It becomes more and more clear that making the EU a top priority in the coalition talks was mainly driven by former party chairman Martin Schulz rather than it reflects the ambition of his party. If the SPD were really willing to make eurozone reform a top priority Scholz and his Finance Ministry would already be working full steam to prepare a consolidated and proactive position to be discussed with Paris ahead of the June summit. However, Scholz – as the rest of his party – seems reluctant to push the topic to the top of the political agenda – despite Emmanuel Macron's next attempt to get a German response.

On top of this, support for Angela Merkel is slowly fading within her conservative bloc. Her handling of the refugee crisis and the poor federal election result have left the CDU divided over the future course of the party. As it should be Merkel's last term in office, potential successors will try to take advantage of her slowly eroding influence to challenge her leadership of the party and the coalition. Minister of Health Jens Spahn has quickly built up a profile as vocal leader of Merkel's internal opposition regularly causing controversy and irritation in order to appeal to conservative voters who believe the party has moved too far to the left under Merkel. The Bavarian CSU will also continue to stir the pot ahead of the election in Bavaria in October 2018 to boost its conservative profile after the party's disappointing results in the Federal election in 2017. Thus, many in Merkel's own CDU and even more in the Bavarian CSU are likely to take a strict position on migration and asylum and will block substantial agreements on the future of the euro area.

New rhetoric, old disputes

There is no doubt that the development and implementation of an ambitious EU reform agenda will require a strong impetus from a Franco-German initiative to win broad support. Indeed, in Paris, the willingness to reinvigorate the Franco-German tandem has rarely been as pronounced as it is at present. From the beginning, President Macron has stressed the significance of Paris and Berlin jointly leading the EU reform agenda.

At the same time, the German government also supports the relevance of the partnership and the need to cooperate, at least in principle. Berlin appreciates that Macron is determined to push through domestic reforms that his predecessors Sarkozy and Hollande failed to implement. Not supporting him on European reforms, a cornerstone of his political agenda, would leave Macron domestically weakened.

Yet, these are not sufficient motives for Berlin and Paris to come together and agree to painful compromises. Despite the rosy rhetoric and the awareness on both sides to fix the structural flaws in the eurozone, France and Germany still find it difficult to overcome their long-standing differences to find an agreement on what such a compromise could look like. Macron's visit to Berlin has clearly shown just how difficult it will be to reach a compromise. Berlin's list of priorities seems to rank an agreement on migration and asylum policies and a deeper cooperation in security and defence higher than reforming the eurozone governance while Paris places its sole priority on the latter. Thus, will the German government really go beyond symbolic gestures when it comes to the eurozone? Proposals such as the setting up

of a eurozone budget to fund structural reforms, the creation of a permanent European Monetary Fund, the establishment of the function of a European Finance Minister and the completion of the banking union are on the table. However, the devil is in the detail. Finding an agreement with the right balance between solidarity and responsibility as well as fiscal discipline and risk sharing remains extremely complex. Indeed, as a reaction to Macron's visit, lawmakers of both the CDU and CSU wasted no time, to reject his reform plans on the future of the eurozone. A leaked paper of their joint parliamentary group for instance revealed the large scepticism towards any concessions to Macron, particularly regarding the establishment of a European Monetary Fund. Yet, also a sizeable eurozone budget seems off the table. And regarding the completion of the banking union, even the social democratic finance minister Olaf Scholz remains hesitant to back the proposal of a European deposit insurance scheme until Italian banks have managed to get rid of most of the bad loans on their balance sheet.

Agreeing to a far-reaching compromise with Paris is even less likely as the German public strongly rejects any kind of debt mutualisation and risk sharing. Chancellor Merkel is now paying the price for repeating over and over again her mantra of fiscal consolidation and structural reforms as prescription to which there are no alternatives. Indeed, the previous coalition government of CDU/CSU and SPD missed out to change the public discourse step by step over time to such an extent that would allow accommodating a compromise on the European level. Doing it now would mean risking a huge backlash in public opinion – particularly given the vocal opposition of the AfD as largest opposition party in the German Bundestag.

Beyond France and Germany

Even if a German response comes soon and Paris and Berlin are able to get their rusty tandem back on the road by putting forward sizeable reform measures, it is far from certain that they can secure a consensus with the rest of the EU27. In an EU27 that has become increasingly polarised over the past decade as a consequence of the economic and debt crisis and the refugee crisis, key policy fields remain fraught with sharp divides. In the field of migration and asylum, any substantial reform proposal to change the *status quo* will receive fierce resistance from governments in Central and Eastern Europe, particularly from Hungary and Poland. With the re-election of Hungary's Prime Minister Victor Orbán as well as the continuing confrontation between the Polish government and the European Commission over the rule of law, these tensions will grow in the foreseeable future and will impair other policy fields such as the negotiations on the next Multiannual Financial Framework post 2020.

Discontent is also growing on eurozone governance. In a letter published in March a group of eight northern EU Member States made it clear that they have no intention of diverging from the goal of fiscal stability. Consisting of Denmark, Estonia, Finland, Ireland, Latvia, Lithuania, the Netherlands and Sweden, the group represents both old and new Member States as well as eurozone members and non-members. While such a statement clearly strengthens the German position, it also reminds Chancellor Merkel of the conditions for support when entering negotiations with President Macron.

Moreover, the renewed political uncertainty in Italy following an overwhelming victory of Eurosceptic parties in the national elections bears further risks: lacking a fully operational government for the foreseeable future after the inconclusive electoral results, Italy's voice at the negotiation table will be missing on the key issues of migration and asylum as well as on eurozone reform.

Channelling scarce political capital

All in all, an agreement on substantial EU reforms has become increasingly unlikely – despite the German government’s return to the negotiation table. Chancellor Merkel would have to invest a considerable share of her political capital to overcome the barriers that she faces both domestically and at the European level to strike a deal. In addition, as it presumably is her last term in office, her political clout will be slowly fading, forcing her to prioritise. Her government declaration in the Bundestag ahead of the March Summit was a first indication that her priority will not be Europe, but rather overcoming the polarisation within German society caused by the refugee crisis and strengthening the country’s cohesion. The favourable economic development throughout Europe as well as the positive trend in approval ratings for the EU in recent Eurobarometer polls could make Germany underestimate the urgency of fixing the structural flaws of the EU. Particularly the conservative bloc within the grand coalition seems to have no appetite to agree on a substantial Franco-German initiative as long as their core demands are not met. Furthermore, the recent confrontations with the USA, Russia and Turkey as well as the US-French-British air strikes against Syria might force Germany to focus on the volatile geopolitical environment. Thus, EU reform could tumble further down on Berlin’s list of priorities. So yes, Germany may be back – but don’t expect too much of it.