Germany's coalition: green light or stuck on amber?

In Germany's coalition talks, the SPD, FDP, and Greens have agreed on key points. While some are necessary compromises, a real vision is lacking

In the wake of the elections to the new *Bundestag*, the social-democratic SPD, the Greens and the liberal FDP have agreed surprisingly quickly to begin coalition negotiations, important key points having been agreed in an exploratory paper. Everything points to the traffic-light coalition (*Ampelkoalition*) — so-called because it would ally the red, green and yellow parties respectively — taking up government business before Christmas, under the SPD's Olaf Scholz as chancellor.

Is this glass half-full or half-empty? In favour of the positive reading is the obvious willingness of all parties quickly to create a government for Germany that is capable of acting. They were prepared to make compromises, which were certainly not easy. The SPD and the Greens buried their plans for higher income tax rates and a wealth tax. In return, the FDP abandoned its long-standing demand for tax relief for high earners and companies.

On government debt, the compromise was relatively easy to find, since only the Greens had called in their election manifesto for a softening of the 'debt brake' (*Schuldenbremse*) embedded in the constitution — and it could not be expected that the two-thirds majority required for amendment would be found in the *Bundestag*. Thus, the parties agreed to remain within its framework.

Surprisingly, the FDP has agreed to a 25 per cent increase in the minimum wage from January, from €9.60 to €12. This would be well above the level in the Netherlands (€10.34), France (€10.25) and Belgium (€9.85). A departure from the neoliberal positions of the 2000s is also evident in the willingness to replace the previous basic income support ('Hartz IV') — associated with massive hardships especially for the long-term unemployed — with a 'citizen's income' (*Bürgergeld*). Whether this will actually lead to a paradigm shift can only be judged

once the coalition agreement is available.

Another positive aspect is that there will be no pension cuts for pensioners in the coming legislative period and no increase in the statutory retirement age. An interesting innovation envisaged is partial capital funding of the statutory pension insurance scheme — though how this is to be done has not yet been formulated. All in all, on social policy the SPD's signature is clearly visible.

Missions lacking

From a more sceptical perspective, such coalition compromises always run the risk of representing the lowest common denominator. This raises the question of whether the 'departure' for a 'comprehensive renewal of our country' envisaged by the three parties can actually be realised.

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Reading the exploratory paper, striking is the lack of concrete missions, as Mariana Mazzucato would say — ambitious, large-scale projects which could achieve major breakthroughs in climate protection, digitalisation and innovation by the end of the decade. Here the SPD, which explicitly promoted a mission-oriented approach in its election manifesto, has evidently not been able to assert itself.

The lack of a master plan for Germany's future is reflected not least in strangely pale statements on climate policy, the heart and soul of the Greens. It remains open, for example, whether there will be a higher price for carbon-dioxide emissions and how the social compensation then required could be achieved. Likewise, there are no statements on a possible hydrogen strategy or on expansion paths for renewable energies. Another blind spot is industrial policy: the outgoing government successfully campaigned for battery-cell production in Germany but the FDP seems to have prevailed here with its *laisser faire* line.

Debt-brake curse

The lack of ambition probably has to do above all with the limited financial leeway. Like a curse, the debt brake narrows Germany's prospects. This is particularly tragic because, with its far below-average debt (relative to gross domestic product) and negative interest rates, the country would be in a special position to finance an ambitious and

broadly-based programme for the future by public borrowing.

Nor is the scope for financing non-existent. In 2022, the debt ceiling of the Stability and Growth Pact rules for the eurozone will be suspended once again due to the pandemic. The federal government has, moreover, substantial reserves and part of the investment can be carried out through public enterprises and possibly public investment companies.

Europe is not to the fore in the discussion about a government programme. In the thematic working groups for a coalition agreement now designated, six members of each party are represented for the topics considered particularly important. On the less important issues — which evidently include Europe — there are only four.

This deficiency has even been taken up by Armin Laschet, the failed conservative candidate for chancellor of the CDU/CSU union. He said: 'The fact that no one is interested in fragile Europe was already shocking during the election campaign, and it now makes one stunned in the formation of the government.'

The new coalition can only achieve its major goals together with its European partners and only if Europe prospers economically — which is anything but self-evident. In the coming years, the European Union and the eurozone member states in particular will have to compete more than ever with China and the United States. And the conditions for this competition are anything but good.

Out of date

The difficulties start with the narrow rules of the Stability and Growth Pact, which are completely out of date. This is particularly true of the rule forcing countries to reduce their debt/GDP ratio to the Maastricht treaty reference value of 60 per cent. Such rules do not exist in the US, which has a ratio of around 130 per cent, or China, where debt is mainly held by the provinces and state-owned enterprises.

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Compared with these two major competitors, another weakness of European monetary union is that the possibilities for joint debt issuance are limited. A hopeful start has however been made with the NextGenerationEU recovery plan. Scholz, finance minister in the outgoing government, even spoke of a 'Hamilton moment for Europe', alluding to Alexander Hamilton, the first US Treasury secretary, who

consolidated the debt of the states via a joint, federal debt.

If one considers how much money China and the US are spending to remain or to become technological leaders in specific areas, Europe will have a hard time keeping up without joint financing facilities. And if Europe falls behind in industrial policy, it will not succeed in using climate change as an opportunity for new competitive technologies.

There is little reflection of these major challenges in the exploratory paper. Instead, the three parties commit to the Stability and Growth Pact, on the basis of which they want to ensure growth, maintain debt sustainability and ensure sustainable and climate-friendly investment. They say that they are committed to a European digital infrastructure, a common railway network and an energy infrastructure for renewable electricity and hydrogen — but they do not mention the phrase industrial policy.

Lack of vision

And so one stands somewhat perplexed before this traffic-light coalition. There is a lack of vision and one cannot see the courage and commitment to give the green light for a decade of technological and ecological renewal. Instead, there is a danger that we shall enter the new legislative period with the handbrake half-tightened and that the all-important European dimension will be neglected.

If the traffic lights are set to amber, we shall end up picking up where the outgoing chancellor, Angela Merkel, left off. All will become clearer when the final coalition agreement is adopted in the next few weeks.

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