

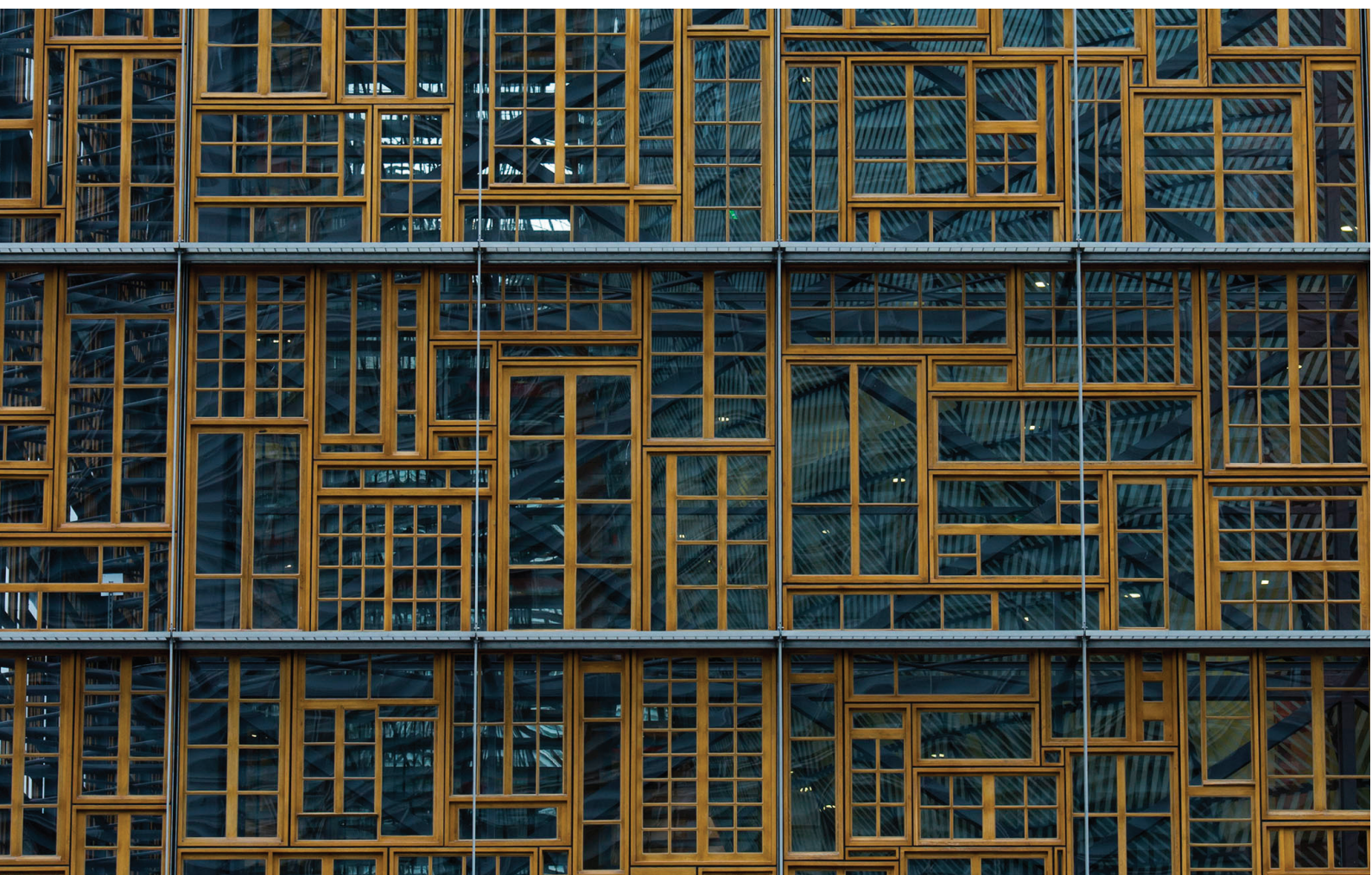
THE EU IN THE GERMAN ELECTIONS

225

A WINDOW OF OPPORTUNITY
FOR EURO AND DEFENCE REFORMS

Niklas Helwig

FIIA BRIEFING PAPER 225 • August 2017



ULKOPOLIITTINEN INSTITUUTTI
UTRIKESPOLITISKA INSTITUTET
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FIIA Briefing Paper 225
August 2017

- Ahead of the federal elections, international challenges have energized the German debate on how to reform and strengthen the EU. While Germany's traditionally pro-European bias remains intact, details on how to move forward are controversial.
- German politics has proved to be relatively immune to anti-EU populism, but Germans raise expectations that the EU needs to deliver results. Berlin has adopted a more flexible approach that seeks a balance between Germany's principle of preserving EU unity and allowing for reform coalitions among less than 27 member states.
- German parties agree on the need for further Eurozone reforms, but have different visions. Conservatives and liberals stress national responsibility and oppose steps towards a 'transfer union', while Social Democrats and Greens appear ready to extend solidarity in a more integrated Eurozone. In a compromise with France, Germany is more likely to increase financial solidarity, if based on meaningful investment projects and tied to oversight and structural reform.
- Uncertainty over the transatlantic relationship has prompted a renewed German commitment to a more self-reliant EU on defence matters. While Berlin is working closely with Paris on developing European defence capabilities, Germany wants new defence initiatives to be open to willing EU partners and in sync with NATO.

Introduction

Germany's federal elections on September 24 will be the first national polls after a series of international crises and political developments that have shaken the parameters of Berlin's European and foreign policy. The "America first" approach of US President Donald Trump runs counter to Germany's traditional transatlantic vocation and preference for multilateralism. The UK's withdrawal from the EU, a Eurozone not yet stabilized, member states violating democratic norms, and Eurosceptic tendencies across the continent threaten the future of European integration – a project that remains an integral part of Germany's identity and national interest.

Chancellor Angela Merkel has reacted to these extraordinary international developments and has reinforced Germany's European vocation. Now, for the first time since the Ukraine and refugee crisis propelled Merkel into a leadership role on the European and world stage, she will be evaluated by German voters. The polls show that Germans are content with her often no-nonsense, managerial approach and will most likely grant her a fourth term.

Nevertheless, the election campaigns raise the question of whether enough has been done to reform economic and defence cooperation in Europe. Particularly after Emmanuel Macron won the French presidency on a clear pro-EU platform and tabled proposals to deepen the Eurozone, Europe is awaiting Germany's response. With a new coalition government in place in the autumn, the crises of the EU and transatlantic relations have a real potential to turn into a window of opportunity for joint Franco-German leadership.

This Briefing Paper analyses the parameters of EU reforms as they are discussed in the German debate. While the parties disagree on specific details, long-term German principles on how to organize the EU become visible and will likely lay the foundation for the next government policies.¹ Berlin is willing

to move ahead in European integration together with France in a multi-speed Europe, but wants to keep new cooperation arrangements open for all EU member states. With regard to the Eurozone, Germany will continue to insist on structural reforms in exchange for financial solidarity. While Germany has reinvigorated its support for EU defence cooperation, it is mindful of the political sensitivities involved. Germany's culture of military restraint and its attachment to NATO cause Berlin to push the EU's role as a defence facilitator, focusing on structures and capabilities.

The willingness to work on EU reforms after the elections is palpable. However, on many issues the window of opportunity remains narrow and will require Germany and France to work out a compromise acceptable to all EU partners.

Germany weathers populism, but seeks EU results

The recent French, British and US elections were full of surprises. While the traditional parties face a new political landscape in France and Britain, populist dynamics helped to elect Donald Trump to the White House. Compared to its Western partners, German support for mainstream parties is still high and the major populist party, Alternative für Deutschland (AfD), has suffered setbacks. While the risk remains that the refugee crisis might again hijack the debate and put domestic politics under pressure, no tangible anti-EU populism is taking hold in Germany.

One of the biggest challenges to the German party landscape has been the rise of the AfD, which managed to enter 13 of the 16 state parliaments, but recently lost support. Given the extraordinary salience of the refugee topic in the German debate in 2015 and 2016 and the lack of alternative views among the parties in the Bundestag, the AfD was able to amass support for its anti-migration campaigns. A decline in incoming refugees and a hardening of the migration policy of the mainstream parties have since stemmed the surge of the AfD. Polling at around eight to ten per cent, the AfD is nevertheless still on course to reach the five per cent threshold of the Bundestag.

The AfD's current success is closely linked to sociocultural debates in relation to immigration. Its profile and legitimacy as an anti-euro party have

1 The paper makes reference to the party programmes of the Christian Democratic Union (CDU), the Social Democratic Party (SPD), the German Green Party (Greens), The Left Party, and the Alternative for Germany (AfD) available on their respective websites.

been weakened after infighting among the party's leadership shifted the AfD further to the right. It is likely that the party will be a weaker Eurosceptical voice in German politics and leave the field to more moderate critics in the ranks of the Christian Social Union (the CSU, Merkel's Bavarian sister party) and the FDP.

While populism faces challenges, Angela Merkel's approval ratings have recovered from their low point during the refugee crisis. In 2017, polls by German public television regularly reveal that around two-thirds of respondents are either satisfied or very satisfied with Merkel's leadership. The Social Democratic contender for the Chancellorship, Martin Schulz, has difficulties in creating a mood of change in the electorate despite his short-lived popularity in early 2017. In times of international uncertainty, Germans are less inclined to abandon Merkel, while Schulz's core campaign message of social justice fails to resonate with voters.

Germans show the same preference for continuity regarding the ruling coalition. Neither the CDU nor the SPD are keen on continuing the current grand coalition. Yet the German public favours a government by a large majority in the centre of the party spectrum. A poll from June 2017 revealed that the CDU and the SPD enjoy the highest favourability ratings among respondents compared to any of the major parties in ten EU member states.²

Despite the strong elements of continuity in German politics, frustration within the German electorate is growing over the EU's failure to deliver solutions. A poll from autumn 2016 revealed that 62 per cent of Germans think that the EU and its member states are not on the right track, while 73 per cent feel that Germany was left to handle the refugee crisis alone.³

Chancellor Merkel has shifted her strategy and increasingly promoted a more flexible approach to

EU integration that is focused on results. Flexibility in this context means allowing EU member states to be more selective over those areas to which they want to make further joint commitments, at the risk of increasing EU fragmentation. At a meeting in Versailles in early March, the four biggest EU27 member states, France, Germany, Italy and Spain, endorsed the idea of a "multi-speed Europe", where coalitions of member states can agree to cooperate more closely in certain policy areas.

While the idea of a more flexible approach to EU integration has been floated in German government circles since the 1990s, it has always been controversial. Germany's traditional goal has been to keep the EU united and to work out compromises that bridge the differences between members. However, the financial crisis created pressure for Euro countries to speed up integration in the currency union. In other policy fields, such as defence, the idea of moving ahead in smaller groups is linked to the hope that more ambitious policies are possible. Central European and non-Euro member states are concerned about being left out of a core Europe built around economic and defence matters and spearheaded by France and Germany. The British decision to leave the Union has amplified these concerns, as the non-Euro and EU defence-critical members are losing their biggest ally in voicing their demands

Germany's challenge is thus to facilitate flexible integration in 27 member states minus x, while at the same time preserving EU unity among the 27. The question of whether to pursue a multi-speed Europe more ambitiously has become part of the election debate. The CDU remains the main advocate for flexibility. For example, Merkel's finance minister, Wolfgang Schäuble, has underlined that the EU's capacity to act has to be improved through intergovernmental initiatives if no compromise on the basis of the EU treaties can be found.⁴ The SPD's election manifesto also stresses that the EU has to become more flexible and should allow groups of member states to move ahead. The Greens position

2 Pew Research Center, Spring 2017 Global Attitudes Survey, <http://www.pewglobal.org/2017/06/15/post-brexiteuropeans-more-favorable-toward-eu/>, last accessed 25 August.

3 Poll conducted by TNS Infratest on behalf of the Körber Stiftung, October 2016, <https://www.koerber-stiftung.de/berlin-foreign-policy-forum/uebersicht-berliner-forum-aussenpolitik/forum-2016/europa-umfrage.html>, last accessed 25 August.

4 Wolfgang Schäuble 'Von der Krise zur Chance', 24 March 2017, Frankfurter Allgemeine Zeitung, <http://www.faz.net/aktuell/politik/die-gegenwart/zerfaellt-europa-25-von-der-krise-zur-chance-14932745.html>, last accessed 25 August.

themselves as guardians of EU unity and warn against deepening divisions.

The German consensus is that a multi-speed Europe should not result in a 'cherry picking' exercise that scales back the current level of integration. The single market, exclusive EU competences (such as trade or competition policies), as well as existing joint legislation are sacrosanct. In addition, core groups should be as inclusive as possible with low entry criteria. Germany is still committed to the EU's single institutional framework, although recent reforms in the Eurozone have shown that it will not shy away from arrangements outside of the EU treaties if necessary.

A careful Euro architect

Emmanuel Macron's election has put pressure on Germany to define its position on how to reform and stabilize the Eurozone. The French President ran his campaign with concrete proposals in mind, such as a Eurozone budget for joint investments as well as the introduction of an EU finance minister. It is no surprise that the proposals have been picked up in the German election campaign and have divided the parties on the left and right of the political spectrum.

Angela Merkel's CDU is generally reluctant to introduce changes to the Eurozone which allow for a pooling of financial risks. The prevailing logic in conservative German circles is that structural problems in Eurozone countries will not be resolved by allowing countries easier access to financial transfers that decrease the pressure for reforms. President Macron would find a much more congenial partner in the SPD's Martin Schulz. Running on a similar pro-European platform to the new French President, Schulz has repeatedly attacked Merkel for not taking bolder steps to revitalize Eurozone economies.

The more likely winner of this election, the CDU, advocates the establishment of a European Monetary Fund (EMF). In line with the vision of Chancellor Merkel and her finance minister, Wolfgang Schäuble, the EMF would have competences to assess the finances of Eurozone countries and offer financial assistance under tight reform conditions. France is

willing to discuss setting up the EMF, but only if new fiscal tools for joint investment are created as well.⁵

It is no secret that Paris and Berlin, while pledging to accelerate reforms, are still worlds apart on specifics. Both sides have different visions on the purpose of EU reforms, with Germany focusing on structural reforms in member states and France on joint investments to stimulate European economies. A working group on Eurozone reforms set up between the French and German finance ministries in May has thus far failed to narrow the gap between the governments. The Franco-German ministerial meeting in July could only agree that proposals would be published at a later date, probably after the German elections.

Differing opinions exist between Schäuble's finance ministry and Merkel's chancellery. While the former is working primarily within its ordoliberal philosophy – a rule-based, free-market logic – the latter is more aware of the political dimension of the Eurozone reforms. Berlin knows that Macron's reform ideas need to be taken seriously in order to prevent anti-EU populism in France from regaining strength. Thus, Merkel is reluctantly signalling support for considering reform proposals, such as Macron's idea to create the function of a Eurozone finance minister or some form of Eurozone budget.⁶

A broader consensus among German parties exists regarding the French call for more EU-level investments. The SPD favours large-scale investment programmes to generate growth and reduce youth unemployment in southwest Europe. The CDU is sceptical of public investment programmes, but could envision investments on specific projects at the EU (not Eurozone) level, especially where common spending is more efficient compared to national programmes. The recently announced Franco-German plan to develop a next-generation fighter jet is seen as an efficient joint public investment compared to national procurement, especially if it contributes to open and more competitive

5 European Monetary Fund – Ready for Crises from 2019?, *Handelsblatt Global*, July 14, <https://global.handelsblatt.com/politics/european-monetary-fund-ready-for-crises-from-2019-esm-imf-euro-zone-eu-797805>, last accessed 25 August.

6 Interview with Angela Merkel in *Die Zeit*, 6 July 2017, page 3.

defence markets. In general, the CDU favours EU tools that encourage private investments, such as the EU Commission's so-called "Juncker plan", which concentrates on co-financing and the creation of an investment-friendly environment.

An EU finance minister, as proposed by Macron, is seen as an option in Germany. What such a position would look like and what kind of financial instruments it would have is, however, controversial. The CDU's Wolfgang Schäuble repeatedly underlined the minister's function as a 'watchdog' of member-state finances in the past. The SPD proposes a French-style deepening of the Eurozone: a European economic government should be installed in the Commission with power over a Eurozone budget and accountability to 'a new structure' in the European Parliament. But given that major changes may require rewriting EU treaties, the simultaneous election of the Commissioner for Economic and Monetary Affairs as the chair of the Eurogroup is a more feasible proposal that would not require treaty changes.

The Franco-German debate on the Eurozone reform will be constructive, but controversial. It is widely expected that Wolfgang Schäuble will continue as finance minister. A CDU-led government is likely to push for limited reforms that stress national responsibility and allow for some additional European investments without introducing elements of fiscal transfer. For example, a "rainy day fund"⁷ in the Eurozone, based on national contributions and able to inject money into crisis-hit states, could be part of the discussion. The SPD or the Greens will advocate European social and ecological investments in a possible coalition with the CDU. In contrast, a possible CDU coalition with the FDP will harden the conservative fiscal stance of Germany. The German liberals campaign on a tough market-oriented message and argue for phasing-out bailout funds, as well as introducing an orderly state bankruptcy and streamlined exit process in the Eurozone.

A stronger EU pillar on defence

Merkel's beer tent speech in May 2017, in which she proclaimed that "we Europeans truly have to take our fate into our own hands", was seen as a defining moment in German foreign and security policy.⁸ She referred to the impressions from the G7 and NATO summit early that week, where President Trump had signalled pulling out of the Paris climate deal and failed to commit to the mutual defence obligations under NATO's Article 5. However, it was not so much a pivot away from the transatlantic devotion, which is part of the German post-war identity, but a plea for a stronger European pillar on defence matters.

Merkel's call for a stronger Europe was not new; she had made similar statements before. Yet the speech was significant in that it reflects a broader change in German thinking, including new considerations about European defence and the role of its own military. Germany's reluctance in the Libya crisis, the key position of Berlin in the Ukraine peace talks, as well as the effects of the refugee crisis, triggered soul-searching in Berlin and a new commitment to a stronger role for Germany in defence politics. Germany has increased its military spending (by 8 per cent in 2016), developed new bilateral initiatives for the procurement of military equipment and for joint forces, and has sent troops to the Baltics as part of NATO's reassurance efforts. A lot of attention has been paid to national, bilateral and NATO efforts to date, but Germany has recently become more active in strengthening the EU defence dimension as well.

Franco-German cooperation is at the core of the new activism in EU defence policy. The German and French defence ministries seized a window of opportunity after the UK – wary of EU defence cooperation – announced its departure from the EU. Since then, France and Germany have worked closely together on introducing new EU instruments, such as the European defence fund, an EU military command centre for EU training missions, and projects within the Permanent Structured Cooperation (PESCO) – a framework that allows groups of willing

7 As mentioned in the "Reflection paper on the deepening of the economic and monetary union", European Commission, 31 May 2017, https://ec.europa.eu/commission/publications/reflection-paper-deepening-economic-and-monetary-union_en, last accessed 25 August.

8 Angela Merkel: Europe must take 'our fate' into own hands, Politico, 28 May 2017, <http://www.politico.eu/article/angela-merkel-europe-cdu-must-take-its-fate-into-its-own-hands-elections-2017/>, last accessed 25 August

and able member states to implement more ambitious defence projects.

While France has traditionally been a proponent of a strong EU defence dimension, Germany has been hesitant. German representatives underline that they see NATO as the backbone of European defence efforts. Merkel's CDU in particular has a strong transatlantic orientation and has welcomed Germany's NATO initiatives of recent years, such as the Framework Nation Concept, a concept that allowed national forces to pool capabilities. But the SPD are also deeply committed to NATO, despite recent criticism of some of the Alliance's policies, such as the conducting of wargames in Poland in 2016. Only the Left party deviates from the German consensus and wants to replace NATO with a new alliance that includes Russia. If maintained, this position will rule the party out of any government participation.

The transatlantic consensus and an awareness of the sensitivities of Poland and the Baltic states, which see NATO as an important framework for keeping the US engaged in the deterrence of Russia, have kept Berlin from actively pushing the military component of EU defence cooperation in the past. Now that Donald Trump has changed the equation somewhat, Germany is willing to deepen EU defence, while keeping it in close sync with and complementary to NATO efforts.

Still, Germany and France have different views on how to implement defence reforms. While Germany aims to foster the EU as a defence facilitator – as a framework which supports the joint development of defence capabilities – France wishes to see the EU as a defence actor that can run its own military operations. The current discussions on PESCO exemplify the differences. France aims for ambitious projects as a step towards EU's strategic autonomy. In contrast, Germany wants to avoid a divide between a 'defence core' and other EU member states and aims for inclusive military projects. During the ministerial meeting in July the two countries agreed on rather ambitious entry criteria for member states to join PESCO, such as pledges to increase defence investment and readiness of multinational troop

deployment.⁹ Nevertheless, Germany's still favours 'soft' PESCO projects, including joint training for military officers and paramedics or a common logistic hub.

The SPD shares the aim of increased EU defence. In line with their traditional position, the Social Democrats emphasise the importance of diplomacy and development cooperation, and are critical of a sole focus on military spending. Trump's recent criticism of lacklustre German military spending was an opening for them to highlight their profile as a 'party of peace'. The party frontrunner's denunciation of NATO's guideline for spending 2 per cent of GDP on the military can be seen as a move to motivate parts of the Social Democratic base that harbours pacifist and anti-American sentiments. Nevertheless, the SPD also agree that more military spending is necessary to revitalize the depleted state of the Bundeswehr – and the EU is seen as the best framework for doing this in an efficient and coordinated manner.

The election will not be a breaking point in Germany's support for EU defence cooperation. It is likely that Germany will continue to push for EU cooperation on defence procurement, joint training, support and intelligence structures, as well as on cyber and hybrid warfare threats. However, Berlin thinks that the EU does not yet meet the political preconditions for developing as a defence actor that is capable of running ambitious missions or of defending EU territory. Berlin rather aims at inclusive and added-value EU projects that do not undermine the role of NATO.

German principles for EU reforms

The German federal elections will not result in significant shifts in Germany's European policies. The revitalization of the Franco-German engine under President Macron is seen as a chance to alleviate Germany's leadership burden, to reform the Eurozone and to strengthen EU defence cooperation. For

9 Nicole Koenig & Marie Walter-Franke: 'France and Germany: Spearheading A European Security and Defence Union?', Jacques Delors Institut – Berlin, July 2017, <http://www.delorsinstitut.de/en/all-publications/france-and-germany-spearheading-a-european-security-and-defence-union/>.

her part, Merkel stated at the joint ministerial meeting in Paris in late July 2017 that “we won’t idle away time”, and that the reforms would get underway even this year.

This analysis shows that while the next German government can work with a strong EU consensus at its back, it will approach reforms in a pragmatic way, guided by key principles. One such principle is keeping Europe together at 27 strong, especially during the Brexit negotiations and given a US President with tendencies to divide European partners through a policy of favouritism. In terms of the Eurozone and defence reforms, Berlin will strive to keep a multi-speed Europe as inclusive and open to newcomers as possible. A balance will have to be found with France, which would rather aim for more ambitious integration in a core Europe.

Regarding monetary union, Germany will continue to stress national responsibility and structural reforms as key ingredients of a more stable Eurozone. This does not rule out more EU or Eurozone-level spending, but German contributions will be tied to structural reforms in member states, projects with added value, and incentives for private investment. Within these parameters, a compromise with France on Eurozone reforms is possible.

Finally, Germany is willing to deepen EU defence cooperation as long as it does not compromise its relationship with NATO and central European EU members. Reforms towards an EU as a defence facilitator are under consideration, which would allow member states to increasingly develop and employ military capabilities together.

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ISBN 978-951-769-539-8

ISSN 1795-8059

Language editing: Lynn Nikkanen.

Cover photo: European Council.

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