

## Germany's comeback: Worth the wait?

*Julian Rappold*

During the six months of tedious negotiations to put a German coalition in place, governments across Europe, and France 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 puts Europe high on the agenda, at least rhetorically. However, both domestic constraints and unbridgeable differences between France and Germany could derail the reform agenda. If Chancellor Merkel wants to go beyond a muddling-through approach she will have to invest a sizeable share of her political capital – domestically and at the European level. But is she ready to do so?

### **In-between Summit**

The EU Summit on 22/23 March saw the return of Angela Merkel as re-elected Chancellor of Germany. As expected, 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. With the new German government 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. Instead, the European Council dealt with Brexit and responded to urgent foreign policy challenges related to President Trump's threat to impose new US trade tariffs and Britain's clash with Russia.

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 the year ahead of the European Parliament elections in May 2019. But despite the time pressure, there are several reasons why Berlin is unlikely to commit to an ambitious compromise that could pave the way for reshaping the EU.

### **Domestic constraints**

The coalition agreement starts with a strong commitment to Europe, but it remains vague and shallow on major issues. 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 reconciled their diverging positions, especially when it comes to migration and the future of the eurozone.

On top of this, support for Angela Merkel is slowly fading, even 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 of the coalition. The CSU will also continue to stir the pot ahead of the elections in Bavaria in October 2018 to boost its conservative profile. The party is therefore likely to call for a strict position on migration and 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, from the beginning, President Macron has stressed the significance of Paris and Berlin jointly leading the EU reform agenda. The German government also supports the relevance of the partnership

and the need to cooperate, at least in principle. Berlin acknowledges Macron is determined to push through domestic reforms that his predecessors Sarkozy and Hollande have failed to implement. Not supporting him on European reforms, a cornerstone of his political agenda, would leave Macron 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 of structural flaws in the eurozone, France and Germany still find it difficult to overcome their long-standing differences. While the German government is ready to initiate some reforms, will it go beyond symbolic gestures? Proposals such as the setting up of a eurozone budget to fund structural reforms, the creation of a permanent European Monetary Fund 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 or fiscal discipline and risk sharing remains extremely complex, especially as the German public strongly rejects any kind of debt mutualisation and risk sharing.

## **Beyond France and Germany**

Even if a German response comes soon and Paris and Berlin put forward sizeable reform measures, it is far from certain that they can secure a consensus with the rest of the EU27. Tangible reforms that would help to rebuild trust between member states could be under threat, too. For example, just as Germany painstakingly overcame its lengthy coalition-building exercise, Italy was forced to grapple with renewed political uncertainty following an overwhelming victory of Eurosceptic parties in the national elections. Some policy areas 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. Discontent is also growing on eurozone governance. For instance, a recent statement issued by the finance ministers of the Netherlands and seven other member states made it clear that they have no intention of diverging from the goal of fiscal stability. 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.

## **Channelling scarce political capital**

Overall, the preconditions for an agreement on substantial EU reforms do not seem favourable. 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 by strengthening its cohesion. The favourable economic development throughout Europe in the past months and the need to focus on the volatile geopolitical environment, including recent confrontations with the USA, Russia and Turkey, could make Germany underestimate the urgency of fixing the structural flaws of the EU. So yes, Germany is back – but don't expect too much.

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