

EU Centre Commentary Series

September 20th 2013

A safe pair of hands for Germany or a stroke of good luck? Merkel and the future of Europe

*By Dr Yeo Lay Hwee (Director) and Loke Hoe Yeong (Associate)
EU Centre in Singapore*



On Sunday (22 September), Germans will go to the polls to elect their next government and their chancellor. Compared to previous German federal elections, this one would be the most widely watched around Europe and the world. This is because it is the first one since the bailout packages for debt ridden EU countries were first rolled out in 2010. Since then

Chancellor Angela Merkel has come to be seen as the most powerful leader of the EU, as the German tax payers became the largest contributor to those bailouts. The elections will also have implications on the direction the EU will take, on issues such as the banking union, and on various legislation and reforms needed to make the euro zone work better.

Merkel most likely to stay as chancellor

It seems to be a foregone conclusion that Merkel's party the CDU would win the majority in this Sunday's election, and that Merkel would remain as the German chancellor. Many polls have been showing Merkel and the CDU ahead of their closest rival, Peer Steinbrueck and the SPD.

Despite some setbacks along the way such as the loss of Lower Saxony in state elections in January 2013, as well as more recent revelations about a possible third bailout package for Greece, Merkel's governing CDU party has held on strong. This is natural, since Germany's reputation as the economic powerhouse of Europe actually consolidated during the course of the crisis. Its annual GDP growth rates hovered

between 0.7 and 4.2% while most of the EU floundered in the negative range. Merkel is quite a popular leader, all things considered. If anything, she is not reviled at home but abroad, in countries like Greece where she is seen as responsible for imposing the austerity measures on the debtor EU countries as conditions for the bailout packages.

The key question in this coming election seemed more to be the concern over who would be Merkel's coalition partner – or partners – in the next government. Polls indicated that her junior coalition partner, the liberal FDP party, is not doing particularly well and might not even garner the 5% threshold to be represented in the Bundestag. But the FDP might be here to stay after all, as other the coalition permutations involving smaller parties are unrealistic. The grand coalition between the CDU and the main opposition centre-left SPD might also be possible, as was the case during Merkel's first government from 2005 to 2009. In fact a survey run in mid-August indicated 23% of respondents favoured a grand coalition, more than any other possible coalitions. Some analysts also believed that this grand coalition would be better able to see through some of the needed measures to strengthen the Eurozone.¹

Other alternative parties formed in recent years have not gotten much traction. The *Alternative fuer Deutschland*, a euro-sceptic party formed in early 2013 by a group of academics advocating German withdrawal from the euro zone, has been labelled as precisely that – a “party of professors”, a derogatory term in German politics. Meanwhile the Pirate Party, modelled after its Swedish counterpart, is still not seen as a serious political force.

The strong showing of CDU going into this election is where the political genius – or sheer pragmatism – of Merkel and the CDU can be appreciated. They have in fact moved leftwards on the political spectrum throughout their years in government, on pension policy, minimum wage and a host of social welfare issues. They have even absorbed the ground of the Green party, considered for a long time the alternative to the traditional political establishment. After the Fukushima nuclear disaster of 2011, Merkel made a policy U-turn and declared a 2022 deadline to shut down all nuclear power plants in Germany. In one fell swoop, the Greens were completely deprived of their ammunition against the CDU – a governing party not known to espouse environmental concerns so wholeheartedly.

¹ <http://www.bloomberg.com/news/2013-09-17/europe-s-best-hope-is-a-german-grand-coalition.html>



From the “sick man of Europe” to Europe’s economic powerhouse

Much credit for Germany’s economic resilience during this stormy period must go to the previous chancellor, Gerhard Schroeder. Although he was from the centre-left SPD, Schroeder’s government saw through a painful programme of labour market reforms which have essentially made Germany what it is today. One tends to forget that during the 1990s, Germany was frequently mocked as the “sick man of Europe”, a country that suffered from economic malaise and anaemic growth in the aftermath of German reunification. Many of the underlying reasons for this continue to plague Germany today – unfavourable demographics in particular. Schroeder’s and Merkel’s programmes should therefore be rightly praised in view of these unfavourable conditions, though that is to say nothing of Germany’s prospects in the next 10 years.

While much of Germany’s current economic resilience can be attributed to the painful structural reforms, Germany has also benefitted significantly from the existence of the euro. A study published by the Bertelsmann Stiftung in April 2013 noted that Germany’s GDP would be lower by about 0.5% points per year without the euro. The euro has made German products much more competitive and become an important player in international competition². This was reflected in the significant inroads that Germany has made into China for instance. Another earlier study by McKinsey also showed that Germany was the main beneficiary of the euro.³

The Bertelsmann Stiftung’s study came amid a perception of growing disenchantment among the German public about the country’s euro membership.

The fact that Merkel and the CDU have not told the voters how much the German banks and industries have benefitted from the euro and how the Eurozone bailouts have also helped propped up some of the German banks is one of the shortcomings that may come into play in this election with possibly some support traditionally for the CDU going to the AfD, the party that runs on the single issue of pulling Germany out of the Eurozone.

But what was also surprising if the polls were to be believed, is that how little EU issues have featured in the German election campaign. During the one and only TV

² http://www.bertelsmann-stiftung.de/cps/rde/xbcr/SID-113A7614-39120542/bst_engl/xcms_bst_dms_37730_37731_2.pdf

³ <http://www.bloomberg.com/news/2012-01-10/germany-reaped-most-economic-benefit-from-euro-mckinsey-2010-study-shows.html>

debate Merkel had with her SPD rival Peer Steinbrueck, the latter attacked Merkel on her euro policies' failure, which Merkel defended her policies by pointing to Germany's healthy economy, and being the engine of growth in Europe. It was on the issue of the US vast data surveillance undertaken in Germany that Merkel fidgeted and indeed the US surveillance programme, PRISM, had dominated the election campaign over some of the EU issues.

Post-election Germany and expectations from the EU

When Merkel visited Singapore in June 2011, she gave a key speech in which she declared Germany's strong support for and commitment to the euro zone. At that height of the crisis, that must have come across as overly idealistic. More than two years on, no one talks about the euro zone collapsing or of Greece leaving the euro zone any more – topics which were seriously mooted back in 2011. And more importantly green shoots of growth seemed to be returning to Europe. The 2nd quarter of 2013 brought some good news that the long recession shrouding Europe is finally lifting. Whether all this is thanks the “safe pair of hands” that has guided Germany and the EU, or to sheer luck, Angela Merkel has already made a lasting mark in German and European politics. And Germany's election is no longer just a national affair as other EU member states watch keenly the results of the election expecting that the outcome would have a significant impact on the future of the EU.

Some analysts, however, have cautioned against “undue expectations” on Germany. Whatever the results of the German election, it is likely that Merkel's return to power and as German Chancellor for a third term would continue on a cautious, low key trajectory seeing itself as a “leading role model, rather than a power with obligation to lead”⁴.

⁴ <http://www.opendemocracy.net/can-europe-make-it/ulrike-guerot/german-election-what-europe-expects-and-what-germany-will-not-do>



Other commentaries produced by the EU Centre in Singapore can be found at:
<http://www.eucentre.sg/?cat=54>

The EU Centre in Singapore aims to promote knowledge & understanding of the European Union, its institutions, policies, and impact on Singapore and the region. We work with different partners to raise the awareness of the EU, its relationship with Asia and its global role through various events, research and policy briefs. The activities of the EU Centre are funded by the European Commission and the two hosting universities– NUS and NTU.

© 2013 Copyright EU Centre in Singapore.

®All rights reserved.

Published in September 2013.