

June 2006

## Slaving away in the Engine Room

### The SPD in the Grand Coalition

**Ernst Hillebrand**

To date, the Grand Coalition has been good only to a limited extent for the SPD. In surveys carried out at the end of May the party garnered only 28% of voter support, 6% less than its result in the September 2005 general election. It is true that the CDU also received a little less support in the surveys than in the election, but the German conservative party can still claim 34% of the voters. After a period of eight months in government together, the SPD has dropped from one percentage point difference to the CDU on election night to 6% today.

Much of this development is primarily connected with the change in the public perception of Chancellor Angela Merkel. In a surprisingly short time and with astonishing resolution the German public seems to have decided to take this first female chancellor on board and to like her: her popularity rating stands at 77%, a very high level and well beyond that of any other federal minister and far in front of the SPD Deputy Chancellor Franz Müntefering.

Frau Merkel managed to capitalise on two key factors:

- Firstly, she has strongly concentrated in the past few months on foreign affairs - always a field which can win high profile and prestige - and she has cut a rela-

tively good figure on her first visits to Washington, Moscow, Beijing and some of the European countries.

- Secondly, she has established a new consultative and pragmatic style in day-to-day parliamentary and cabinet business. The majority of Germans appear to find this approach congenial and appealing, following on as it does from the seven-year-long period of Red-Green government, in which politics on all sides often appeared to be staged as a permanent public ego-trip.

#### The upcoming agenda

The decline in support for both parties revealed by the survey does however point to the fact that the population is beginning to expect some tangible results from the government. The honeymoon seems over. Now the government has to prove that it can fulfill the public's unspoken expectations of the Grand Coalition and execute the necessary reforms in consensus and a socially balanced form.

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Following the relatively swift implementation of the pension reforms (rise of retirement age to 67 in 2029) and the agreement on an increase in VAT from 16% to 19% (which is still highly controversial among economists), three further large-scale projects are in the pipeline for the coming weeks and months:

- The reform of the health system, where the central disagreement between the parties is not about cost-cutting or increased efficiency, but about the future overall funding of the system.
- The implementation of the federalism reforms, where the obstacles to agreement remain the allocation of environment and education remits and the distribution of tax revenues. The big reward of that reform would be a simplification of the legislation procedure and a clearer distinction of the areas of authority at federal and regional level in Germany's complicated multi-layer governance system.
- Firming up of the concept for budget consolidation and planned-for amendments in the field of corporate taxation. By agreeing the increased rate of VAT, this government has agreed to implement the biggest tax increase in the history of the Federal Republic of Germany in order to balance the state's books.

These reforms are expected to become law in the course of 2006. The next steps leading into 2007 are reforms in the labour market. At the core of this debate is the question of how the labour market reforms of recent years can be efficiently implemented, both from a cost angle and an administrative point of view, and whether it is useful to introduce a tax-credit scheme for the low wage sector. The question of a legal minimum wage remains controversial, because the CDU/CSU rejects the idea and the SPD is not sure whether it should really push for it.

In the field of foreign policy, the coalition is preparing to take on the dual role of EU- and G-8 presidency; in the case of the former, the future of the EU constitution will

undoubtedly play a key role, together with energy policy and the EU-relations with Central Asia.

### **SPD's fundamental dilemma in the grand coalition**

The divergent development of the opinion polls for both parties ultimately reflects the impression that, up to now, in this "marriage of convenience" the costs and benefits are not altogether fairly distributed. According to various surveys, the government's policies to date are perceived by the public as socially unbalanced and bearing the signature of the CDU more than that of the SPD. In particular many SPD voters view some of the planned legislation as CDU-inspired: a freeze on increases in state pensions, the increase in VAT from 16% to 19% from 2007, tightening of the rules governing entitlement to unemployment benefits, a reduction in the tax credit for travel to and from work and the extension of work probationary periods for new jobs are all measures seen by SPD voters as an infringement of their concept of social justice.

This development throws light on a fundamental dilemma for the SPD as a member of the grand coalition: in the negotiations leading to the formation of the coalition, the SPD agreed to surrender the post of Chancellor in favour of taking the lead in a large number of classical cabinet departments. As a result, the SPD provides, among others, the minister for foreign affairs, the finance minister, the minister for work and social issues and the health minister. At times of budget constraints and high unemployment this means that these ministers are hardly likely to be able to announce too many "good news" to the public. At the same time, the modern "ministries of the future" like education and the family went to the CDU. The underlying idea was that only by occupying the classic key government ministries would the SPD be able to maintain visibility and a profile of its own in a grand coalition under the leadership of a CDU Chancellor

This strategy has to date been confirmed to a certain extent. Indeed, all the mayor reform projects so far have emanated from SPD-led departments and the SPD ministers have a far higher profile than the CDU ones; so far, only Angela Merkel has been able to strengthen and widen her profile significantly via her presence on the world stage.

At the same time, however, this strategy has led to the SPD feeling the negative effects of painful reforms much more strongly than the CDU, which finds it easier to dissociate itself from them. The impression has been created, according to SPD General Secretary Hubertus Heil, "that the CDU is relaxing up on the sun deck, while the SPD is sweating it out in the engine room." And he adds: "This is not the way for a grand coalition to work. Both parties must take responsibility!" The Vice Chairman of the SPD's parliamentary party in the Bundestag, Ludwig Stiegler was even more eloquent, as is his wont: "It's just not on that we should be chopping onions in the kitchen while the others are out front collecting the tips." The SPD is still hoping that this phase will pass and that the voters will ultimately commend the SPD ministers in the key ministries for their hard work. What is more, Angela Merkel must begin sometime soon to tackle domestic problems herself. According to the liberal newspaper *Süddeutsche Zeitung* recently, "Germany is still waiting for the Chancellor's maiden visit to the country."

Whether the strategy of the SPD pays out will depend to a great extent on one single area of politics: the labour market. This is a key social-democratic issue and Vice Chancellor Franz Müntefering as the highest-profile of all the Social Democrat ministers is in charge of that area; success or failure in that field is therefore symbolically linked with the overall success for the SPD within the government. So far, the results are mixed. There has been a slight decrease in the number of unemployed (350,000 fewer unemployed than in 2005, i.e. a reduction of approx. 0.7%), but at the same time a host of problems remains to be solved: costs of the newly-regulated unemployment benefit law (Hartz IV) have turned

out to be far higher than anticipated while the modernisation measures in the field of the job agencies have not lived up to expectations. As a result, public satisfaction with the government's performance is nowhere as low as in the area of combating unemployment. This situation is far more dangerous for the SPD than for the CDU.

### **The complex issue of profile**

An issue which is difficult for both parties is that of their political profile; the configuration of the grand coalition tends unavoidably to water down the political differences. The SPD has thus far survived this balancing act better than the CDU. The party is more familiar with the compromises and constraints of government at the federal level; at the same time it was able during the coalition negotiations to push through its ideas in crucial areas. The CDU on the other hand is only just beginning to go through a painful phase of adjustment. In a recent article, the conservative *Frankfurter Allgemeine Zeitung* wrote that the party was in the bewildering situation of a patient who only on the operating table realises that he is about to undergo not an appendectomy, but a sex change. The emerging internal criticism of "social-democratisation" of the CDU within the grand coalition is however somewhat short-sighted, since it portrays this development only as the manifestation of the limitations imposed by governing in coalition. This is true only in part, however, since it is also due to Angela Merkel's dogged desire not to repeat the mistakes made during the election campaign and to place the party symbolically and rhetorically as far as possible in the political centre ground. "Angie" doesn't live here any more: the new role model is Helmut Kohl, not Margaret Thatcher.

### **Kurt Beck as new SPD chairman**

Since May 14 the SPD has a new chairman, Kurt Beck. He is the third since the election in September 2005. The rapid change in leadership should not however

be seen as an indication of a party in institutional crisis. In the case of each change of leader - the change from Franz Müntefering to Matthias Platzeck and from Platzeck to Beck - personal factors were decisive. Kurt Beck has a lot of experience as Premier in the Rhineland Palatinate and can claim a "proximity to the grass roots" almost unrivalled by any other top politician in the SPD, thanks to his social background, his career pattern and his personal lifestyle. He is a proven pragmatist, supporting reforms within the framework of a socially balanced modernisation programme. As a result of his many years as premier, he is likely to cut a politically sharper and stronger figure than Matthias Platzeck was able to do during his short tenure.

SPD has so far avoided any discussion of the conclusions to be drawn after the 7-year Red-Green coalition. The motto appears to be to get on with governing and not to chew over the past. From a practical point of view, this would seem to be absolutely right. However, it does avoid any discussion of the strengths and weaknesses of the 7-year SPD government which did after all end with the loss of control in most regional

legislatures, a narrow electoral defeat of Gerhard Schröder and the establishment of a new competitor on the left.

The SPD has decided not to conduct a post-mortem on the experiences of that period, but to carry out a sort of stealth revision by partly readjusting its policies. What is important to the party leadership is that the debate about the past does not become destructive or too retrospective, but that it is forward-looking and constructive. The vehicle for such debate is the upcoming launch of a wide-ranging internal discussion open to all party members aimed at formulating a new party programme, which should be concluded by autumn 2007.

Beyond these internal discussion processes, in the real world of the grand coalition, SPD's approach to politics however is bound to be defined by the motto of the former arch-pragmatic SPD-Chancellor Helmut Schmidt: "*Someone who's got visions should go to see a doctor.*"

## **"Focus on Germany" - Recent publications by FES London**

### **Slaving away in the Engine Room-The SPD in the Grand Coalition**

<http://feslondon.org.uk/documents/SlavingawayintheEngineRoom.pdf>

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[http://www.feslondon.org.uk/documents/IslamicEducationinGermanStateSchools\\_000.pdf](http://www.feslondon.org.uk/documents/IslamicEducationinGermanStateSchools_000.pdf)

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### **The Way Out of The EU Constitutional Crisis**

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### **Solar Energy in Germany**

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# Which Way Europe?

## Recent Publications by FES on the future of the European Integration

### **Working Group "European Integration"**

The EU Needs a New Economic Policy! – Kick off to the Debate

(January 2006)

The crisis of the European Union is the result of an economic policy which is solely aimed at the enhancement of competition. In contrast, the EU needs an economic policy in which the interplay of monetary, fiscal and wage policy is coordinated in a way that enables a rise in demand. To achieve this, a wide debate on the prevailing economic policy in Europe is necessary.

[http://fesportal.fes.de/pls/portal30/docs/FOLDER/POLITIKANALYSE/PUBLIKATIONEN/AGEI\\_ENGL.PDF](http://fesportal.fes.de/pls/portal30/docs/FOLDER/POLITIKANALYSE/PUBLIKATIONEN/AGEI_ENGL.PDF)

### **Marie-Janine Calic**

The Western Balkans on the Road Towards European Integration

(December 2005)

Today, the Western Balkans are in much better shape than they have been for a decade. Nonetheless, the region still suffers from a number of structural problems. Against this background and in view of an assumed "enlargement fatigue" in Member States, a number of alternative models to full membership have recently been suggested. However, giving up the project of South-Eastern enlargement would seriously endanger the considerable efforts that the EU has invested in the stabilisation of the region. What is rather needed is an intelligent combination of political incentives within the framework of EU integration and an adequate and refocused assistance package for the Western Balkans.

<http://fesportal.fes.de/pls/portal30/docs/FOLDER/POLITIKANALYSE/PUBLIKATIONEN/CALIC.PDF>

### **Alexander Petring & Christian Kellermann:**

New options for European Economic and Social Policy

(October 2005)

The European Union is currently facing a severe crisis of legitimacy due to growing ambivalence concerning the economic and social consequences of European integration. With the proceeding enlargement of the EU the number of conflicting reform proposals for a European Economic and Social Model increases even further. Consensus building in the European Union is getting more and more complex and difficult. We discuss all major policy fields to trace common ground for a new legitimacy of the EU.

[http://fesportal.fes.de/pls/portal30/docs/FOLDER/POLITIKANALYSE/PUBLIKATIONEN/PETRING\\_KELLERMANN.PDF](http://fesportal.fes.de/pls/portal30/docs/FOLDER/POLITIKANALYSE/PUBLIKATIONEN/PETRING_KELLERMANN.PDF)

### **Siegfried Schultz**

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Given Turkey's size and level of economic development, its accession to the European Union would undoubtedly have an important impact. Any estimate of the budgetary impact of the country's accession is difficult to give and will be attended by numerous uncertainties.

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