All change? Why the German elections are unlikely to fundamentally alter eurozone policy
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September 2013
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1. Executive Summary

Key points:

- This remains a tight race. We assign a 45% probability to a continuation of the current centre-right coalition (CDU/CSU-FDP); a 40% probability to a grand coalition (CDU/CSU-SPD). Other options are also still on the table, however, including a centre-left coalition (SPD-Greens) with the passive support of far left party, Die Linke.

- We assign a 5-10% probability of the anti-euro party, Alternative für Deutschland (AfD), making it into the Bundestag. However, given the possibility of opinion polls underestimating the party’s support, this is incredibly difficult to call.

- Of the nine proposals currently floating about to solving the eurozone crisis, we expect clear movement in only one or two areas, including the most important but most unclear: the proposal for a single eurozone resolution authority for banks. Germany faces the fundamental question of whether to negotiate and work within the framework presented by the European Commission, or move outside EU structures and create an ad-hoc organisation. Whichever the new government chooses could set the tone for the future of the eurozone.

- Even under a grand coalition, Germany is unlikely to significantly depart from its current emphasis on austerity – any change is at most going to be superficial with Germany pushing the same policy in a slightly different package. Ultimately, such an approach is driven by Germany’s own experience with deep structural reform as well as the broad support austerity enjoys from the general public.

- German politicians and the general public are both keen on stronger central eurozone control over taxation and spending as a prerequisite for any further financial aid to struggling members of the single currency. Such beefed-up supervision and enforcement could well require EU treaty change in some form. A Merkel-led government may well push for a formalised “competitiveness pact” after the elections, whereby struggling eurozone countries commit to reforms in return for aid.

- The German position on further eurozone aid to Greece and/or Portugal is unlikely to shift much. All parties broadly accept the need for a third Greek bailout, although all the main parties are keen to delay the decision until after the elections. The CDU/CSU and SDP both oppose a further debt write-down for Greece. With 75% of Greek debt now owned by taxpayer-backed institutions, a write down would likely cause direct losses for German taxpayers, in turn potentially causing a massive popular backlash and significant problems at the German Constitutional Court. In any case, some form of assistance for Greece and Portugal looks likely, no matter the government in office.

- Movement on debt pooling could happen under a centre-left coalition, (unlikely) or a grand coalition with a strong SPD presence – with a debt redemption fund, involving temporary debt pooling, being the only workable option. Even so, it will be a huge task to sell it to German voters, 64% of whom oppose debt pooling. It would also have to jump over many constitutional hurdles. We still hold it as an outside possibility.
2. Background

2.1 How do the German elections work?

German federal elections determine the composition of the lower house of the German parliament – the Bundestag. Each voter has two votes; one for a specific candidate in their constituency who is elected on a ‘first-past-the-post’ basis, and a second vote for a political party. Both voting sections account for 299 seats each, giving the Bundestag a nominal total of 598 seats. However, the allocation of seats is strictly proportional for all parties that gain above 5% of votes (or alternatively, win three seats in direct contests).

Once directly-elected MPs have been accounted for, these seats are taken away from their party’s total seat allocation determined by their overall vote share. This means that the large parties do not have a double advantage by winning direct seats on top of their overall share of the vote. When a party wins more constituency seats than it is entitled to according to its share of total votes, additional seats are created (so-called Überhangmandate) – meaning that the overall number of German MPs is not fixed, and can end up being higher than 598. However, the overall balance does not change because, following a recent change to the electoral law, the other parties are also entitled to extra seats as compensation.

2.2 What is the most likely outcome of the elections?

Below, we rank the main potential post-election coalition scenarios according to their probability, based on current polling trends and political compatibility:

**CDU/CSU and FDP (Schwarz-Gelbe Koalition):** A continuation of the current coalition is still the most likely outcome – a pre-condition for this is that the FDP makes it into the Bundestag (although, even then, a centre-right majority is not guaranteed). It is worth remembering that CDU/CSU/FDP will still not have a majority in the Bundesrat – the upper house of the German parliament which represents the German states (Länder) and is elected separately. The red-green majority in the Bundesrat might even increase on September 22, if the very close elections in Hessen produce an SPD-led regional government. On many crucial issues, the federal government needs a majority in both houses.

**Probability: 45%**

**CDU/CSU and SPD (Große Koalition)** Although both parties have said they don’t want to repeat the grand coalition of 2005-2009, this remains a highly plausible scenario as it enjoys the support of most German voters. It remains unclear how stable such a government would be. Paradoxically, if both the anti-euro AfD and the FDP were to win seats, a grand coalition would be more stable, since the resulting parliamentary arithmetic would preclude outright centre-left or centre-right majorities.

**Probability: 40%**

**SPD, Greens with passive support by Die Linke:** Although this coalition has been tried in the Berlin regional parliament, it is extremely unlikely at the national level. However, Die Linke could offer its passive support to an SPD – Green minority government, without entering a formal coalition. Senior SPD politicians seem to have ruled out this possibility; however, the outcome of the election may lead them to reconsider. In such a scenario, the
government would need to rely on CDU/CSU support on eurozone policy given differences with Die Linke. Such an arrangement has proved workable in Denmark among other places, but would remain challenging over the longer term.

**Probability: 7%**

**CDU/CSU and Greens (Schwarz-Grüne Koalition):** Although such a coalition was the subject of much speculation last year, it now looks like a long shot, given that it would only come into play if negotiations over a grand coalition were to fail.

**Probability: 3%**

**Other options (5%):**

- **SPD, Greens and FDP (Ampel Koalition):** Done at the state (Länder) level, but highly unlikely.

- **A coalition involving the AfD:** Current Chancellor Angela Merkel has ruled this out, and it is virtually impossible for multiple reasons.

2.3 Could we see a minority government or re-run elections?

These options are highly unlikely given that since its foundation in 1949, the German Federal Republic has never experienced a minority government or re-run elections. This is because of the inherent bias in German politics for stability and pragmatic consensus building, and the current situation in the eurozone would provide an even stronger incentive to avoid instability.

2.4 Don’t rule out Alternative für Deutschland

Polls tend to put AfD at around 3% – with one recent poll having it at 4%. While its opposition to the bailouts is widely shared among German public opinion, many prefer to stick with the security of the established parties. Although our best bet that AfD will make it into the Bundestag is at 5–10%, the party is definitely a dark horse, for two reasons:

- There’s probably a larger chunk of undecided voters than ever before – over 30% according to some polls – making the elections unusually difficult to call.
- Polls often underestimate new, come-from-behind protest parties. It happened with Beppe Grillo in Italy and it may well happen with AfD. Online polls tend to put AfD higher than polls conducted over the phone, suggesting voters are still embarrassed to publicly admit they will vote for the party. Also, because of the weighting methodology used, poll results can have an inherent bias in favour of the established parties.

2.5 What about the Pirate Party?

Although the Pirate Party did well in a number of regional elections in late 2011 and early 2012 by tapping into discontent with the established parties – most notably securing seats in Berlin and Nordrhein-Westfalen – that appears to have been its high water mark. Since

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then, its poll ratings have been in decline. It has suffered from a number of internal disputes, a lack of clarity over its key policies (beyond internet freedom) and a general inability to impose itself on the political debate. However, polls consistently put the Pirates at the 3% mark, and as with the AfD, there is a chance that traditional polling methods are underestimating its support. Nonetheless, we do not expect the party to enter the Bundestag.
3. Parties’ positions on EU policies

<table>
<thead>
<tr>
<th></th>
<th>CDU/CSU</th>
<th>SPD</th>
<th>Greens</th>
<th>Linke</th>
<th>FDP</th>
<th>AfD</th>
<th>Change after election?</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Polls</strong></td>
<td>39-42%</td>
<td>24-26%</td>
<td>11-14%</td>
<td>6-8%</td>
<td>4-6%</td>
<td>3%</td>
<td>Largely agreed, but on-going push for separation of supervisory and monetary function at ECB</td>
</tr>
<tr>
<td>Banking Union part 1: Supervisor</td>
<td>Greater separation of ECB monetary policy and supervision role</td>
<td>Supports but floated moving supervision outside ECB</td>
<td>Support but want greater role for European Parliament</td>
<td>Opposed to current SSM compromise</td>
<td>Supervision to be moved outside of the ECB</td>
<td>Unclear</td>
<td></td>
</tr>
<tr>
<td>Banking Union Part 2: Resolution</td>
<td>Support Eurozone-wide resolution authority composed of national regulators, but oppose joint backstop</td>
<td>Supports bank bail-ins partly funded by bonus and dividend claw backs. Unclear stance on resolution authority</td>
<td>Support single resolution authority but together with a ‘debt brake’ for banks</td>
<td>Unclear, but stresses a ‘bank levy’</td>
<td>Sceptical of a single resolution authority</td>
<td>Opposed</td>
<td>Unclear if Germany will work with EU Commission proposal or push its own</td>
</tr>
<tr>
<td>Banking Union part 3: Deposit guarantee fund</td>
<td>Opposed</td>
<td>Opposed</td>
<td>Opposed</td>
<td>Opposed</td>
<td>Opposed</td>
<td>Opposed</td>
<td>No</td>
</tr>
<tr>
<td>Direct eurozone bank recapitalisation</td>
<td>Limited funds in conjunction with strict conditionality</td>
<td>Opposed to taxpayers’ cash to “[foreign] bankers”</td>
<td>Unclear</td>
<td>Opposed</td>
<td>Support on condition member states provide co-financing</td>
<td>Opposed</td>
<td>Unlikely to be tapped in near future</td>
</tr>
<tr>
<td>Pro-competitiveness/ reform contracts</td>
<td>Strongly support – one of Merkel’s election campaign issues</td>
<td>Unclear</td>
<td>Unclear</td>
<td>Opposed</td>
<td>Unclear but could be sympathetic</td>
<td>Unclear</td>
<td>Possible under a Merkel-led government, may need treaty change</td>
</tr>
<tr>
<td>Debt Pooling: debt redemption fund</td>
<td>Opposed</td>
<td>Supports</td>
<td>Support</td>
<td>Unclear</td>
<td>Opposed</td>
<td>Opposed</td>
<td>Off the agenda, but possible under government that includes SPD, may require treaty change</td>
</tr>
</tbody>
</table>

*Source: Open Europe/Open Europe Berlin Research*
<table>
<thead>
<tr>
<th></th>
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<th>FDP</th>
<th>AfD</th>
<th>Change after election?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Pooling: eurobonds</td>
<td>Opposed</td>
<td>Opposed</td>
<td>Support, but as “long-term aspiration”</td>
<td>Unclear</td>
<td>Opposed</td>
<td>Opposed</td>
<td>No</td>
</tr>
<tr>
<td>An activist ECB</td>
<td>Opposed</td>
<td>Opposed</td>
<td>Possibly open to ECB taking on a greater role</td>
<td>Supports ECB directly financing member states</td>
<td>Strongly opposed - Bundesbank veto over sensitive ECB decisions</td>
<td>Opposed</td>
<td>No</td>
</tr>
<tr>
<td>Focus on austerity</td>
<td>Strict compliance with debt rules, greater supervision and tougher sanctions</td>
<td>Critical of ‘unbalanced’ austerity but have not called for it to be abandoned entirely</td>
<td>Support fiscal consolidation but say balance and extent wrong under Merkel</td>
<td>Strongly opposed</td>
<td>Strongly support</td>
<td>Supports</td>
<td>Change in tone and emphasis under Grand Coalition, but no fundamental shift</td>
</tr>
<tr>
<td>Further Aid for Greece/Portugal</td>
<td>A &quot;limited&quot; bailout may be needed. Strongly opposed to debt write-down</td>
<td>A third bailout will be needed. Opposed to debt write-down</td>
<td>Unclear, but see another haircut as &quot;inevitable&quot; result of Merkel’s policies</td>
<td>Opposed – at least to conditions. Support a debt write-down</td>
<td>Unclear – many party figures strongly opposed to both bailout and haircut</td>
<td>Opposed, call for euro break-up</td>
<td>Likely, but limited aid with debt write downs unlikely to be considered soon</td>
</tr>
<tr>
<td>State insolvency regime (debt restructuring)</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Unclear</td>
<td>Yes</td>
<td>Unclear</td>
<td>Likely to go for heavily watered down version</td>
</tr>
<tr>
<td>FTT</td>
<td>Likely to go for heavily watered down version</td>
<td>Supportive</td>
<td>Supportive</td>
<td>EU-wide levy on banks and wealth</td>
<td>Supported</td>
<td>Unclear</td>
<td>Likely to be heavily watered down</td>
</tr>
<tr>
<td>Treaty Change</td>
<td>Schäuble has floated the prospect to boost supervision, but nothing explicit in manifesto</td>
<td>Constitutional convention; EU as federal state; common economic and fiscal policies, but also option to &quot;repatriate&quot; competences; Primacy of social rights over market freedoms</td>
<td>Unclear; Constitutional Convention and more direct democracy.</td>
<td>Abolish Lisbon treaty and &quot;neoliberal&quot; acquis, abolish FRONTEX etc.</td>
<td>EU as federal state; new European &quot;subsidiarity court&quot;</td>
<td>Right / obligation to exit Eurozone</td>
<td>Likely in some form but scope, nature and timing unclear</td>
</tr>
</tbody>
</table>

*Source: Open Europe/Open Europe Berlin Research*
4. What movements can we expect after the German elections?

Below, we assess what movement can be expected on key policy areas currently being discussed. For all the talk of significant progress after the elections – particularly when it comes to solving the eurozone crisis – it seems unlikely that there will be any major shifts in policy.

4.1 EU Banking Union

I. A single supervisor for eurozone banks (SSM)

What does it involve?

EU leaders have agreed that the ECB will play the role of the supervisor for major banks in the eurozone, scheduled to start operating in the summer of 2014. However, questions over the ECB’s exact remit and form remain open.

Current government position: Agreed to SSM, but suspicious of ECB Governing Council having the final say over both monetary and supervisory matters.

Changes after the elections?

Germany is likely to continue to push for stronger separation of monetary policy and supervisory functions at the European Central Bank. However, allowing the final decision to rest with the ECB’s supervisory board (as opposed to its governing council), or moving the single supervisor outside of the ECB completely, would both require changes to the EU treaties.

Where do parties stand?

CDU/CSU: Wants a stronger separation of monetary and supervisory functions. Continued supervision of savings and cooperative banks at national level.

SPD: Calls for “a powerful joint-bank supervision in the EU” in its election manifesto. Has called for a separate supervisor that is not the ECB.

FDP: The FDP wants supervision to be moved outside the ECB to ensure separation of monetary and supervisory functions.

Greens: Welcome SSM – but believe the European Parliament must obtain additional rights to control the ECB to ensure transparency.

Die Linke: Dr Axel Troost, financial spokesperson for Die Linke, says the party “rejects this plan” as the ECB should not be the supervisory body.

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2 Last year, Berlin secured an exemption for small banks from the single supervisor – this was very important for Germany domestically, given the large role played by regional and state-controlled banks, both economically and politically in Germany.


4 Bundestag Press Release „Grüne begrüßen Übernahme der Bankenaufsicht durch die EZB und stellen Bedingungen“ (15.06.2013), http://www.gruene-bundestag.de/?id=4384239

5 Dr Axel Troost,Im Streit ums Geld wird die Bankenaufsicht gerupft", (22.06.13) http://www.die-linke.de/nc/dielinke/nachrichten/detail/artikel/im-streit-ums-geld-wird-die-bankenaufsicht-gerupft/
II. A bank resolution structure (SRM)

What does it involve?

A common scheme for the “resolution” of troubled eurozone banks through a Single Resolution Mechanism (SRM). The European Commission has proposed itself becoming the Single Resolution Authority responsible for winding down banks – although the combined resolution fund will be built up from industry taxes over the next decade.

Current government position: Opposes the Commission’s proposal, says it requires treaty change.

Changes after the elections?

Unclear. Big questions remain over whether a new government will press ahead with a structure outside the EU institutions or attempt to negotiate a significant overhaul of the Commission proposal (it may even ask the Commission to start from scratch). A joint backstop is not on the cards at the moment, while any proposal involving treaty change will be a slow process.

Where do parties stand?

CDU/CSU: Finance Minister Schäuble has proposed a two-step process. First, to create a network of national supervisors, and secondly, to eventually turn that into a eurozone-wide resolution authority, which would require a treaty change. Not keen on a joint backstop for banks, especially where decisions are out of national control.

FDP: Sceptical of a single resolution authority.

SPD: Its manifesto says, “In a crisis, bonuses would have to be recovered, dividends withheld and owner must share the losses⁶ – but it has been quiet on whether or not it supports a joint resolution authority.

Greens: Support a pan-European resolution fund and want a “debt brake for banks” and a curb on the size of banks.⁷

Die Linke: Advocate a bank levy “specifically for the banking sector to contribute to the costs of crisis⁸.”

III. Deposit guarantee fund

What does it involve?

A common deposit guarantee fund to jointly insure bank deposits in the eurozone. This idea features in European Commission President José Manuel Barroso, and European Council President Hermann van Rompuy’s “roadmaps” for eurozone integration, but the Commission is yet to table a proposal.

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Current position: Opposed

Changes after the elections?

No. Limited support from all major parties and general public. Would require significant changes to EU treaties and possibly to the German Basic Law (with the ensuing legal cases at the German Constitutional Court, GCC).

What do the parties say?

Currently none of the German parties support the idea with the CDU/CSU explicitly ruling out "German savers having to bear liability for the deposits in other countries ".

4.2 Direct eurozone bank recapitalisation

What does it involve?

EU leaders agreed in June that funds from the European Stability Mechanism (ESM) can be used to directly recapitalise eurozone banks – but not until the second half of 2014, when the SSM begins to regulate and stress-test eurozone banks.

Current government position: Following pressure from Germany, eurozone leaders agreed that only €60bn of the ESM’s €500bn capacity can be used for direct bank recapitalisation, and that private creditors must take losses first.

Changes after the elections?

Any decision to use the ESM to recapitalise eurozone banks – including the current compromise – will need approval by the Bundestag. Likely that strict German conditionality will be attached to any further use of the ESM. Given hurdles to access, it seems unlikely to be tapped in the near future – longer term focus on single resolution fund (see above).

Where do parties stand?

CDU/CSU: Schäuble has said that “Only under strict conditions, [can the ESM be] the last stop” for troubled banks.

SPD: During the election campaign, the SPD have been critical of the use of ESM funds to directly recapitalise banks. Steinbrück recently ruled out the use of ESM funds for bank recap: “As Chancellor, I will not give any German taxpayers' money to rescue foreign banks.”

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10 For more information see: Open Europe Blog, “Eurozone compromise on using ESM to directly recapitalise banks - a stopgap at best?” (21.06.2013), http://openeuropeblog.blogspot.co.uk/2013/06/eurozone-compromise-on-using-esm-to.html


FDP: The FDP election manifesto advocates the use of ESM funds to support banking recapitalisation in principle, if the member-state in question provides co-financing.\(^\text{13}\)

Greens: No clear position.

Die Linke: Opposed the ESM itself, on the basis that it would be used to fund banks at the expense of the social state, and is even challenging it at the GCC.\(^\text{14}\)

### 4.3 Reform contracts / “competitiveness pact”

**What does it involve?**

Struggling eurozone countries entering into a “contract”, whereby they commit to reforms in return for some sort of fiscal support. Essentially a formalisation of current ad-hoc measures with beefed-up supervision and enforcement mechanisms, possibly including sanctions. This may require treaty change, due to transfer of oversight and enforcement to the European Commission.

**Current government position:** No formal proposals but Merkel has spoken approvingly of the idea.

**Change after the elections?**

Possibly. Reform contracts may well become German policy under a centre-right coalition and we may see a political push.

**Where do the parties stand?**

**CDU/CSU:** In their election manifesto, the CDU/CSU mention a “competitiveness pact” in which the nation states agree to concrete reform measures with the European Commission to increase their competitiveness through reforms\(^\text{15}\) - this is also the only specific eurozone policy idea Merkel explicitly floated approvingly during the election campaign.

At present, this appears to be Merkel’s preferred option, the contracts would give Germany more control over the cash it puts on the line to shore up struggling eurozone countries. They also involve less cash than the eurobailouts. Other parties have not spelt out their positions on this specific policy but it is likely tied heavily to their view of austerity (see below).

### 4.4 Debt pooling (debt redemption fund or eurobonds)

**What does it involve?** Under a debt redemption fund – one form of debt pooling that has been floated -- Germany and stronger eurozone states would temporarily underwrite any debt of a weaker country above 60% of that country’s GDP, under the condition that this debt is wound down with the help of externally decided policies. The influential German Council of Economic Experts (the Sachverständigenrat), which advises the German


government has been calling for such a fund for years. However, there is no formal EU proposal on the table.

Another more permanent, and radical, form of debt pooling, eurobonds, would see eurozone states issue joint government bonds, allowing the weaker countries to borrow at more favourable rates.

**Current government position:** Opposed to both a debt redemption fund and eurobonds. Both would be very unpopular, and possibly unconstitutional in Germany. As illustrated by a recent Open Europe/Open Europe Berlin poll, the level of resistance to debt pooling among the German public is extremely high: 64% say that the next government does not have the mandate to sign up to eurobonds.

**Changes after the elections?**

Eurobonds are a non-starter at the moment. However, a debt redemption fund remains an outside possibility given that is has support of the Greens and the SPD as well as the Council of Economic Experts. It is not impossible to imagine a grand coalition backing a debt redemption fund, although it only seems likely if the crisis worsens once again. It has been designed in a way to make it legally acceptable in Germany, but would probably still be the subject of challenges and public opposition. It is also unclear if the accompanying oversight and constraints would be accepted by other European countries taking part in the fund.

**Where do parties stand?**

In their government programmes for 2013-2017, the parties say:

**CDU/CSU:** A debt redemption fund “would be the way to a European debt union, in which the German taxpayer would have to vouch for the debts of other countries without limit. We reject this.” Separately, the CDU/CSU has also floated the idea of a ‘debt restructuring mechanism’ (a state insolvency mechanism) to deal with the sovereign debt of countries which continuously overshoot their fiscal targets, although its commitment to this is unclear given that it does not favour another Greek debt restructuring. It categorically rules out eurobonds.

**FDP:** “We reject joint liability of government bonds of member states, whether eurobonds or a debt redemption fund.”

**SPD:** “With a European debt redemption fund, we want to ensure the legal capacity of all members of the monetary union. With a binding debt reduction and reform plan, the States

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16 Financial Times, “German Economists urge vast euro debt fund,” (09.11.2011) http://www.ft.com/cms/s/0/9305e3d0-0ad9-11e1-b9f6-00144feabdc0.html#axzz2e13l21Au
17 Open Europe/Open Europe Berlin/YouGov Deutschland Poll, “German voters say next Chancellor lacks mandate to press ahead with further financial support for eurozone – a majority agree euro membership should be slimmed down” (03.09.13) http://www.openeurope.org.uk/Article/Page/en/LIVE?id=12789&page=PressReleases
will be bound to their duty.” No explicit reference to eurobonds in its election manifesto. However, SPD politicians have rowed back after some initially supportive remarks about eurobonds.

Greens: "We demand a European debt redemption pact." The Greens are also the only party that appears to be supporting full eurobonds. “Eurobonds remain our objective, even if they are not realised in a day.”

Die Linke: Don’t mention debt pooling explicitly in their election manifesto.

4.5 An activist ECB

What does it involve?

The ECB doing more to get the economy going and help troubled eurozone governments – similar to the roles played by the US Federal Reserve and the Bank of England. The ECB is politically independent, and changing its mandate would require treaty change, so this is a matter of tone and principle rather than policy.

Current government position: Tacit acceptance of the ECB’s bond-buying programme (OMT), but strongly opposed to the ECB going further.

Changes after the elections?

No. There is huge support in Germany - amongst the public as well as political class - for the ECB having price stability as its sole mandate. The Bundesbank is also fiercely independent and would not welcome any moves to adjust its role or that of the ECB.

Where do parties stand?

CDU/CSU: The possibility of the ECB buying up unlimited government bonds can only be a temporary instrument. Largely allows the Bundesbank free rein on monetary policy issues.

SPD: Somewhat mixed position. Has warned of the impact of low interest rates on German savers and has been critical of ECB bond purchases (although not as vocally as CDU/CSU and FDP MPs). However, the party has also called for higher wages in Germany, suggesting willingness to accept higher inflation and a rebalancing in the eurozone.

FDP: Decisively rejects state funding from the ECB. The Bundesbank should be strengthened in the ECB’s Governing Council. In exceptional decisions, the Bundesbank should be given a veto.

Greens: The independence of the Central Bank must be respected but more open to a greater ECB role.

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Die Linke: Wants the ECB to directly help fund eurozone states.

4.6 Focus on austerity

What does it involve?

A strong focus on balanced budgets, even at the cost of a political backlash and negative effects on short-term growth.

Current government position: Debt is the fundamental cause of the crisis and needs to be reduced across the eurozone. Some easing of austerity rhetoric recently but fundamental policy path the same.

Changes after the elections?

No fundamental change. There may be more focus on structural reforms, possibly involving some leeway on fiscal cuts and some token ‘pro-growth’ initiatives, particularly under a SPD – Green government. Ultimately, the approach is driven by Germany’s own experience of the Agenda 2010 reforms and enjoys strong public backing.

Where do parties stand?

CDU/CSU: Strict compliance with budget rules a key part of the election manifesto, calling for stronger sanctions for those who break the rules.25

SPD: Says that Merkel’s “one-sided” austerity policy needs to be corrected but Steinbrück has also said that “there has to be a consolidation of budgets – but – not in such deadly doses for these countries.”26 SPD strongly supports a yet to be defined new “Marshall Plan” for Europe.27

FDP: Strong supporters of austerity, have tried to push CDU/CSU to be even stricter but with limited success.

Greens: Want a ‘ New Green Deal’ to solve the crisis permanently, been critical of Merkel, but have not called for Germany to abandon its basic emphasis on budget consolidation.

Die Linke: The party sees itself as “part of Europe’s mass protests against EU-austerity.”28

4.7 Further assistance for Greece (and Portugal)

What does it involve?

Further help for Greece – this is likely to involve another bailout in 2014 (likely also true for Portugal) and possibly a further write-down of Greek debt.

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26 Peer Steinbrück, TV Election Debate, (01.09.2013), http://www.youtube.com/watch?v=XJQT8A2_c3g
27 Steinbrück laid this out in speech in June 2013. His ‘new Marshall Plan for Europe’ is to be modelled on the U.S. aid that lifted Europe out of the depression following World War Two.
Current government position: Have publicly accepted the need for a third bailout, which will be much smaller than previous ones. Have also made broadly positive noises about further help for Portugal. Strongly oppose a further debt write down for Greece, given that close to 75% of Greek debt is held by the official sector (EU, IMF & ECB). Previous estimates have said this could cost Germany €17.5bn. Taking losses on this debt would also reverse the premise that the bailouts have been simply 'loans'. This could cause legal problems and may be judged unconstitutional in Germany, while also officially creating a transfer union in the eurozone.

Changes after the elections?

New aid package likely but will be limited in size and unlikely to include another write down due to legal constraints and popular public opposition. May include extension of maturities and cut in interest rate of current Greek/Portugal bailout loans.

Where do parties stand?

CDU/CSU: Schäuble and Merkel have both said a limited Greek bailout may be needed, although they have also both opposed a write-down, saying it would breed uncertainty. Within the CDU/CSU's own party ranks, there will be plenty of opposition to a Greek bailout, with CSU leader and President of Bavaria, Horst Seehofer, saying a new package to Greece "is not in question.”

SPD: Has stressed a bailout is needed, calling it a sign that Merkel's eurozone policy is failing, but has not specified what it will do if in office. Chancellor Candidate Peer Steinbrück has also been critical of another Greek haircut, saying, “The result would be that there would be a very strong reluctance at all to invest in government bonds.”

FDP: Powerful voices within the party strongly sceptical of a third Greek aid package, and the party has also said that another write down is "not legally possible". Recently it has been more supportive of Merkel and accepted that discussion of third bailout should be delayed until next year.

Greens: Jürgen Trittin, leader of the Greens, has said that Merkel's crisis politics mean that Greece will need another debt haircut. "The policy towards Greece, which Merkel is responsible for, will almost inevitably lead to another debt haircut."

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31 (Spiegel Online, „Euro-Krise: Seehofer wettert gegen Schäubles Griechenland-Vorstoß“, (22.08.13) http://www.spiegel.de/politik/deutschland/neues-hilfspaket-fuer-griechenland-seehofer-kritisiert-schauble-a-917947.html
36 Manager Magazine Online, (18.08.2013) http://www.manager-magazin.de/politik/weltwirtschaft/a-917208.html
Die Linke: Reject Merkel’s assurance that another Greek haircut won’t be necessary, and want widespread debt write-downs. In the words of Sahra Wagenknecht, Deputy Chair of Die Linke: “National debt should be reduced drastically by a hard haircut and a European property tax for millionaires.”
