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AFTER THE GERMAN ELECTIONS: A “grand bargain” for Europe

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“If she allies with the liberals, I’m dead,” confessed Emmanuel **Macron** a few days before the German elections. Indeed, following the defeats of Le Pen in France, Wilders in the Netherlands and Höfer in Austria, many of the hopes for European reform were bound up with a satisfactory end to Germany’s 2017 electoral cycle. The shocks of Brexit and Trump’s victory absorbed, the new European political term was meant to begin with a renewed boost to the Franco-German motor with an Angela Merkel revalidated by the ballot box and **Macron’s proposals** for reforming the EU and eurozone.

But in her final term Merkel probably has her sights set more on Germany than on Europe. The most likely coalition government emerging is between the CDU/CSU as the majority partner, the liberals of the FDP and the Greens. That after Martin Schulz’s social democrats ruled themselves out of a rerun of the grand coalition and the other combinations fell short of an absolute majority. In the absence of agreement on the “Jamaica” coalition with the Greens and the FDP, the only remaining options would be a minority Merkel government – highly unstable – or holding new elections, which could reduce her margin of victory even further. If they do manage to shape a government agreement, much of Merkel’s political capital will be concentrated on making the junior coalition partners’ disparate programmes compatible.

So the window of opportunity for rejuvenating the European project is re-nationalised, this time in Germany. The FDP is against Macron’s policies for revitalising the eurozone: from the finance super-minister to increasing the European budget, via the mutualisation of debt in the form of euro bonds. The liberals will demand that these prescriptions – already little appreciated by Merkel and Schäuble – are kicked into the long grass, and all the more so if they are given the Ministry of Finance. As junior partner, the Greens will probably forgo their agenda for a social Europe (for example, through common unemployment insurance) and concentrate on environmental policies and the promotion of the circular and digital economy.

Neither is the understanding with Macron likely to be easy in the framework of the flexible or multi-speed Europe. After Juncker lowered expectations in the **SOTEU**, Germany may also take a backwards step. If anything, for the liberals, a flexible Europe involves creating differentiated circles of belonging to the eurozone, with a reinforced centre and a less integrated periphery (in the aftermath of the euro crisis they even flirted with the need to **expel Greece** from the single currency). The Greens are also reticent about multiple speeds, but that is out of fear of the flexible Europe mutating progressively into European disintegration. And Merkel, whose position seemed to be aligning with Macron's at the **Versailles** summit, may opt to drag her feet on fundamental reform, in contrast to the predictions of a more European chancellor in her fourth term.

The debates on European reform, beginning with Macron's proposals, have focussed until now on reforming the euro as the hard core of integration. Following the German elections, however, it is preferable to widen the scope of these discussions to avoid falling into the Juncker **scenario** of "carrying on" and putting off *sine die* the reforms of the EU. The scope should be widened in two complementary directions: increasing the number of actors involved beyond the Franco-German motor; and adding reform of other areas as well as the euro to the mix.

On the one hand, although essential, the Franco-German axis cannot be the only engine of reform. The **differences** between their conceptions of the future eurozone may mean discussions run aground, above all given the new situation in Germany and the subsiding of the "Macron surge" in France (the **Senate elections**, held on the same day as the German general elections, resulted in a setback for the candidates of La République En Marche). The Paris-Berlin duet should complement itself with the participation of the other large EU states – as happened at the **big 4 summit** in Versailles – and it should probably accommodate some of the proposals from central Europe to encourage a pan-European vision, not just a bilateral one. Equally, proposals made by alliances that are less in use but which nevertheless exist should be considered, such as those of the **young liberals** Macron, Charles Michel (Belgium) and Xavier Bettel (Luxembourg).

On the other hand, the aim of the reform must go further than the euro. Instead of placing all the eggs of refounding Europe in the basket of a reformed eurozone, the idea of a "grand bargain" for the EU is gaining ground. The end goal of European reform is to make an EU that is better able to react to crisis and has a more effective and democratic system of government. Euro reform is a fundamental part of this but it is not the only one. By widening the range of policies reformed, the member states and institutions will be better able to exchange cards in this refounding. That would strengthen a transactional logic according to which concessions in one area could compensate for gains in another.

The multi-party government emerging from the Bundestag elections can ease this task. The CDU/CSU, liberals and Greens have notable differences in their conceptions of the new eurozone, above all when compared to those arguing for greater integration. However, **points of contact** exist on Schengen, Brexit, foreign policy and the role of the European Parliament. The Greens agree with the FDP about reforming the Dublin system, which the refugee crisis has called into question. On Brexit, both parties and Merkel agree on taking a united front in the negotiations and on limiting the exceptions for access to the single market (Brexit à la carte). On foreign, security and defence policy, there is margin to give the EU a more central role. And the idea of a transnational list for the 2019 European Parliament elections is one of the more pro-European parts of the FDP's programme.

If what works in Germany for its European policy is carried over to a continental scale, widening the scope of the reform, both in terms of the players and issues involved, has its advantages. It will undoubtedly be a slower and more complex process than focussing on relaunching the eurozone, but a grand bargain also would also oxygenate the debates that may become entrenched at national and European levels.