Germany's opposition and the euro crisis

by Katinka Barysch

Although Germany's next general election is not scheduled until October 2013, the campaign started in earnest on September 28th 2012. On that day, the opposition Social Democrats (SPD) chose Peer Steinbrück as their candidate for the chancellorship, dismissing the other two members of the party's leadership trio. Steinbrück promises not only more social justice at home but also quicker and more sustainable solutions to the euro crisis: less pain for Greece and Spain, a bigger rescue fund, a genuine banking union and deeper political integration. Could a Steinbrück-led government, together with France's Socialist President François Hollande, offer a pro-growth alternative to Merkel's austerity-focused euro strategy?

The SPD likes to portray itself as the more pro-European of the mainstream parties. It could hardly call for more European solidarity and at the same time vote against eurozone bail-outs. Since 2010, therefore, the SPD has voted alongside Merkel's Christian Democrats (CDU) in almost all important decisions on the euro. In recent votes, for example on the fiscal compact, Merkel could not muster a clear majority among her own – increasingly eurosceptic – MPs. She had to rely on the support of the SPD and the Greens instead.

This leaves the SPD in a bind since voters do not believe that it offers a distinct alternative to Merkel's euro strategy. Nor does the SPD dare to divert too much from Merkel's chosen course, of which two-thirds of voters whole-heartedly approve. When SPD politicians criticise Merkel's euro policies, they focus on the process – foot-dragging, U-turns, backroom dealings and lack of honesty – not the substance. They call for more solidarity and growth but insist that they, too, would demand tough decisions on austerity and reforms from the countries concerned. They effectively promise to do almost the same as Merkel, only somehow better.

Steinbrück knows that on the subject of the euro, Merkel is unassailable in Germany. He will therefore build his election campaign around other topics, notably banking and social justice. However, his calls for alleviating poverty sound feeble since Merkel's government has come out in favour of minimum wages and extra money for childcare and poor pensioners.

Tougher regulation of financial markets should be a sure vote-winner in a country where most

Photograph © Deutscher Bundestag/ phototek/ Thomas Trutschel people believe the banks have got off lightly after causing the financial crisis. Equally important, the subject endears Steinbrück to his party base, which is still deeply suspicious of his conservative and pro-business leanings.

In September, just before his nomination as candidate, Steinbrück presented a 30-page plan on financial sector reform. He proposes a financial transaction tax, a legal separation of investment and retail banking along the lines suggested by the UK's Vickers commission, a euro-wide banking resolution fund, and tougher rules on bonuses, hedge funds and rating agencies.

The trouble is that many Germans do not believe him. When he was finance minister and then president of the state of North Rhine Westphalia, he was responsible for overseeing the region's 'Landesbank' (WestLB), which used its public guarantee to borrow cheaply and invest badly. It later buckled under a mountain of toxic assets. As finance minister in Angela Merkel's grand coalition (2005-09), Steinbrück long insisted that German banks were fundamentally sound – only to implement two bank bail-outs at considerable expense to the German taxpayer in 2008. Steinbrück's credentials as a left-winger were further undermined in October this year, when newspapers revealed that he has collected well over €1.5 million in speaker's fees and book royalties since departing the finance ministry in 2009 – and failed to tell parliament about it.

Steinbrück's public approval ratings have plummeted since the revelation and some in his party already ask whether he will last until the 2013 election. But 11 months is a long time in politics. And the outcome of the 2013 election will, as always, depend on the complicated arithmetic of German coalition politics. Merkel's CDU, alongside its Bavarian sister party (the CSU), is clearly leading in the polls. But Merkel's current coalition partner, the Free Democrats (FDP), might not get the 5 per cent of the vote necessary to return to the Bundestag. Nor can the SDP and their preferred coalition partner, the Greens, expect a majority of the votes. Steinbrück has ruled out coalition talks with either the hard-left Linke or the chaotic Pirate party. Most Germans therefore think that a grand coalition of CDU/CSU and SPD is the most likely outcome of the 2013 election.

But Steinbrück has already said no to this option, promising not to join another grand coalition under any circumstances. After the 2005-09 CDU/SPD tie-up, voters punished the SPD for diluting its political principles. The party gained a miserable 23 per cent of the vote in the 2009 election. Moreover, if SPD voters deem the election a foregone conclusion, they will not turn out. Steinbrück must offer a real alternative to Merkel to mobilise his electorate and his party. Many observers predict that he will perform another U-turn in 2013, accepting the job of vice-chancellor and finance minister in a third Merkel government. But one former SPD minister and long-time friend of Steinbrück insists that he is serious about his all-or-nothing strategy. That would probably leave the pragmatic former Foreign Minister Frank-Walter Steinmeier to lead the SPD into a new grand coalition.

The euro policies of such a coalition are unlikely to be fundamentally different from Merkel's current course. First, Merkel has already shifted on many issues, into a direction that the SPD feels comfortable with. With Greece in its fifth year of recession and unemployment in Spain at 25 per cent, the public mood in Germany has become more compassionate. What is more, with her erstwhile ally Nicolas Sarkozy gone, Merkel can no longer dominate eurozone gatherings. She now faces a southern club of Spain, Italy and France. Merkel now frequently and publicly concedes that South European countries will not be able to reduce their debt through austerity alone. More must be done to return them to growth, she says, echoing the SPD's line.

Second, the SPD will also have to compromise if it is to re-join the government. The SPD's initial support for eurobonds has already crumbled – although SPD leaders still speak favourably of the idea of a 'debt redemption fund' that would pool much of the eurozone's existing excess debt. Steinbrück and his SPD colleagues know that Merkel is not the only, or even the most important, obstacle to debt mutualisation. The mighty constitutional court has declared eurobonds illegal, the vast majority of Germans simply do not want them, and even within the SPD there is no majority for them.

In government, the SPD would probably push for a banking license for the European Stability Mechanism (to increase its fire power), but seek to curtail ECB bond-buying, which it considers non-transparent and undemocratic. It would be more open to an EU banking union than the CDU, including a joint resolution fund (paid for by the banks, not taxpayers). But whatever the next election outcome, Germany will not offer a quick fix for the euro.

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