Between Brussels and Berlin – How Germany’s National Politics affect the Future Path of European Fiscal Policy and what this might mean for Europe

Master Thesis

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Datum, Unterschrift
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<tr>
<td>CDU</td>
<td>Christian Democratic Union</td>
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<td>CSU</td>
<td>Christian Social Union</td>
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<tr>
<td>ECB</td>
<td>European Central Bank</td>
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<tr>
<td>ECOFIN</td>
<td>Economic and Financial Affairs Council</td>
</tr>
<tr>
<td>EDP</td>
<td>Excessive Deficit Procedure</td>
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<tr>
<td>EMF</td>
<td>European Monetary Fund</td>
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<tr>
<td>EMU</td>
<td>Economic and Monetary Union</td>
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<tr>
<td>EPSCO</td>
<td>Employment, Social Policy, Health and Consumer Affairs Council</td>
</tr>
<tr>
<td>ESM</td>
<td>European Stability Mechanism</td>
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<tr>
<td>FDP</td>
<td>Liberal Democratic Party</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<tr>
<td>GG</td>
<td>Grundgesetz [German Basic Law]</td>
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<td>GSFG</td>
<td>General Supplementary Federal Grants</td>
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<tr>
<td>MTO</td>
<td>Medium-term Budgetary Objective</td>
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<td>REG</td>
<td>Regulation</td>
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<td>SCP</td>
<td>Stability and Convergence Programs</td>
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<td>SFG</td>
<td>Supplementary Federal Grants</td>
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<td>SGP</td>
<td>Stability and Growth Pact</td>
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<tr>
<td>StabiRatG</td>
<td>Stabilitätsratsgesetz [Stability Council Law]</td>
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<tr>
<td>TEU</td>
<td>Treaty on European Union</td>
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<td>TFEU</td>
<td>Treaty on the Functioning of the European Union</td>
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<td>TSCG</td>
<td>Treaty on Stability, Coordination and Governance in EMU</td>
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<td>VAT</td>
<td>Value Added Tax</td>
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1. Introduction

1.1. Problem Description

Europe’s Economic and Monetary Union, established on basis of the Delors Report and introduced by the Maastricht Treaty, aims at creating converged member states of the European Union. This convergence is planned to happen in three stages. However, EMU started with serious flaws, which several critical papers diagnosed only shortly after the first stage. The most obvious problem was that fiscal policies remained a national competence, while the establishment of the monetary union happened rapidly\(^1\). In the area of monetary policy, member states have delegated their sovereignty to the Union. Most other economic policy powers remain national privileges\(^2\). Thus, national fiscal policies and monetary policy faced a poor accord. No one tried to control the negative spillovers from the economic union into the monetary union. Furthermore, member states had problems fulfilling the convergence criteria after joining the Euro area. The fact that politicians mostly ignored these flaws made the EMU vulnerable and prone to crisis\(^3\). In 2008, the time had finally come. The global financial crisis, which transformed into a sovereign debt and banking crisis in several Euro countries, required necessary reforms of the asymmetric policy design of the Economic and Monetary Union. With the eruption of the crisis, also politicians finally recognized serious flaws in the structural design of the EMU. The necessary reform steps started with ad-hoc rescue operations for financially weak Euro countries and with publications of several highly important reports on the future of EMU. However, because of the happenings in the last years with an asymmetrical design, Europe needed more than just ad-hoc rescue operations. A couple of important reform steps were crucial to stabilize the common currency.

Nevertheless, the Euro area crisis did not come overnight. The academic community had identified the key weaknesses that provoked the divergences among member states and thus the crisis long before the crisis actually erupted in 2008. The urgent need for reforming the EU governance framework only really gained importance because of the beginning recession when experts suspected the possibility of

\(^1\) Begg et al. (2015, p. 804).
\(^3\) Marzinotto et al. (2011, p. 2).
illiquidity or insolvency of both EU and Euro member states for the first time since the introduction of the Euro⁴. Hence, further integration steps have been and are still necessary to finally complete the Economic and Monetary Union, but nevertheless, member states may continue to be hesitant when they have to relinquish further parts of their sovereignty in fiscal policy.

As the crisis showed, fiscal policy of member states has sometimes spillover effects on other member states. Those externalities trigger demand for EU regulation and monitoring⁵. Since many authors argued that those functional deficiencies of the Economic and Monetary Union were also responsible for the unsuccessful crisis management as well as for the Euro crisis itself, the question remains whether it would be the right step to Europeanize fiscal policy. In the course of this process, the member states should define the creating of a fiscal union with a fiscal equalization scheme in order to avoid divergences as their primary objective. The result must be a more effective form of integration, able to coordinate short-term actions with long-term goals, as already suggested in the Four and Five Presidents Report, and member countries with a European thinking instead of being stubbornly national⁶. However, national leaders are aligned on two sides, the one side that believes moral hazard has to be contained by enforcing stricter rules and opposing any kind of transfer system, and the others that fear a two-speed Europe. Two European presidents, namely Jean-Claude Juncker and Emmanuel Macron, have realized the urgent need for closer cooperation among member states. In their two speeches in September 2017, they discussed their goals and visions for the future of Europe and paved the way for a variety of important reforms concerning the Eurozone. Their goal is not only to make the Union more crisis-proof but also to balance the asymmetric design of EMU as well as inducing integration.

One member state which already has such fiscal equalization scheme in place to offset divergences among its states is the Federal Republic of Germany. Although the German Länder face huge economic divergences, the country as a whole enjoys the highest reputation for a functioning economy. This is only possible with its fiscal

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⁴ Enderlein et al. (2012, pp. 28, 29).
⁵ Genschel and Jachtenfuchs (2014, p. 13).
⁶ Jones and Torres (2015, pp. 879, 880).
equalization that rebalances differences in fiscal capacities through tax redistribution among the German states. However, this scheme revealed problems and risks by creating disincentives for the Länder. While the European Union redistributes parts of its budget through funds for cohesion, structural policy and research policy, which the European Commission considers as a stabilization mechanism, these measures seem to be insufficient since a "two speed Europe" can still be observed. As the member states have committed themselves, with the accession of the Union, to further integration, both politically and economically, it should be a key issue to realize the reform proposals made by Juncker and Macron. Commission President Juncker and French President Macron proposed a multitude of reform steps for the future of the European Union. However, not all proposed reforms are supported by Germany. Shortly before Macron gave his speech Germany held elections, which the Christian Democratic Union (CDU) won, albeit with great loses in votes. The first four-party coalition on federal level of the Christian Democratic Union, the Christian Social Union (CSU), the Greens and the Free Democrats (FDP) was considered the most likely government, although not easy to form. The four coalition partners were parties with opposing views that led to the breakdown of the exploratory talks after four weeks of negotiating during the research. It is expected that Germany and especially the chancellor will now face difficult political times. Without a government majority, Angela Merkel has little room for maneuver on European topics out of respect for the future government and decisions will be tough to make. Her primary objective is now to secure Germany’s political stability and to prepare for possible new elections. Which suggestions would have been supported or possibly rejected by a Jamaica coalition will be explored in this thesis. Consequently, the thesis takes the parties’ point of views into consideration to show how the European Union may have evolved in the future to pursue Germany’s primary target, to stabilize European fundamentals and thus the common currency. Moreover, as the biggest member state was at the time of writing without a government, it will investigate how Germany’s political calendar influences Europe’s agenda.
1.2. **Theoretical Basis: Intergovernmentalism**

There are different theories available to look more closely at European history and European integration. One can distinguish between an endogenous explanatory model and an exogenous explanatory model. The theory of intergovernmentalism belongs to the latter. The exogenous models focus on those factors that are beyond the control of European institutions and organizations.

In the interest of understanding and analyzing the fiscal policy of the European Union, it is indispensable to refer to certain theories. Since the aim of this work is to show that deeper fiscal integration is needed to guarantee a well-functioning Union and a stable common currency, considering the theory of intergovernmentalism appears as a logical step. Fiscal integration is a contentious issue among member states. As certain member states are still reluctant when it comes to the transfer of sovereignty in the field of fiscal policy since they want to keep fiscal policy-making at the national level the theory demonstrates that this is only possible with great difficulty.

Intergovernmentalism is a theory that focuses on the national interests and concerns of a state. Accordingly, ideal partner countries should be selected to achieve the national goals by means of partnerships and cooperation. Nation states are of course willing to relinquish certain competences to supranational actors, but only if this results in advantages for their own interests. Intergovernmentalism takes the view that the member states induce the European integration process, only developing if they seek further integration.\(^7\)

Stanley Hoffmann was the first who propagated the intergovernmentalism theory, based on historical-sociological realism. He assumed that nation states unite to achieve certain purposes and policies. Hoffmann sees a strengthening of the national states when creating a union. The realistic intergovernmentalism sees states as unitary actors whose national interests are defined by their geopolitical power and their desire to enforce national interests. The position, which a state possesses in the different negotiations, is strongly dependent on its general resources of power. As a result, the nation states and their interests are the driving forces of European integration.

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\(^7\) Fabbrini (2016, p. 589).
integration, only then follow supranational decisions and actors. Hoffmann sees intergovernmentalism as an infinite project and neglects a sudden ending of any intergovernmental cooperation.\(^8\)

Andrew Moravcsik, who was a student of Hoffmann, assessed the theory in a more complex way. For Moravcsik political or ideological motives were not of paramount importance in intergovernmental unions, but rational economic considerations. He argues that national governments see an increased control over domestic policy outcomes and thus the achievement of goals, which could otherwise not be reached, as the incentive to cooperate.\(^9\) If views of an individual state are in accordance with other states, agreeing on common rules is possible since collective outcomes are the result of combined individual opinions.\(^10\) However, the states must benefit from these consensuses, otherwise, intergovernmental cooperations are useless.\(^11\)

Moravcsik established a three-step model to explain why states decide to cooperate. According to his model, states first define their preferences, which are purely based on national interests. This is followed by the bargaining process which should lead to agreements. In the third step institutions are created, responsible for securing those agreements. Nevertheless, these institutions do not gain any political autonomy since the "masters of the treaties" are still the member states, carefully monitoring the transfer of sovereignty.\(^12\) Such a situation is currently predominant in certain policy fields of the Union.

According to Bieling, it is of great importance to all nation states to reduce several uncertainties. To this end, the state can pursue an excessive conquest policy or retreat from the rest of the world. Yet another possibility is to merge with other states and to cooperate to form a political unity. If states pursue the latter, they are willing to enter alliances with other states. The aim is protection against all possible threats, which are beyond their control. This also applies to the process of European integration.

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\(^8\) Bieling (2005, pp. 89, 94).
\(^10\) Moravcsik and Schimmelfennig (2009, p. 68ff.).
\(^11\) Steinhilber (2005, p. 169ff.).
\(^12\) Steinhilber (2005, p. 183).
integration since member countries seek protection from economic threats, fiscal imbalances or other crises\textsuperscript{13}.

Liberal intergovernmentalism shows that no further integration is possible without the member states realizing how important a further reformed European fiscal construct and a fiscal transfer mechanism would be and as a result of this defining their preferences towards it.

In 2014, Christopher Bickerton, Dermot Hodson, and Uwe Puetter investigated European integration in the post-Maastricht era, which is marked by an integration paradox. The authors came up with a new form of integration that is called “the new intergovernmentalism”. They call the period after signing the Maastricht Treaty an integration paradox, as the constitutional principles of the Union have remained unchanged, but an unprecedented level of Union activity could be observed and integration has gone far beyond what was achieved before Maastricht. Since Maastricht, the member states intensified their policy coordination and favored deliberative and consensual behavior. However, this coordination, which occurred at all levels, happened without supranationalism, as it avoids transferring more powers to supranational bodies of the European Union\textsuperscript{14}.

The authors argue that this new form of integration is not a temporary deviation. Rather, it is a new phenomenon in European integration leading to intergovernmental cooperation instead of delegation to supranational institutions. New intergovernmentalism marks a new phase, established since the signing of the Maastricht Treaty, that points towards an absence of supranational decision making. Bickerton, Hodson, and Puetter believe that the relative importance of supranational actors concerning the character and direction of European integration has been in question since Maastricht as governments supported the creation of new institutions which concentrate the powers of governments and its representatives, thus containing direct channels for national influence, called de novo bodies\textsuperscript{15}.

\textsuperscript{13} Bieling (2005, p. 98).
\textsuperscript{14} Bickerton et al. (2015, p. 705f.).
\textsuperscript{15} Bickerton et al. (2015, pp. 706, 717).
In contrast to what Moravcsik said, the understanding of domestic politics is broader in the new intergovernmentalism theory. EU integration and preference formation of member states are not separated in space and time. Instead, pressures occurring within the process of preference formation have shaped further integration. This created more dynamic and unstable relationships between member state governments, domestic constituencies and EU institutions. Deliberation and consensus have become the guiding principles of EU policy-making and reflect its decentralized character in the new areas of EU activity. Only through consensus seeking practices collective actions are possible and consistent. Of course, it is still the member states that are to decide in which direction further integration should lead and impose limits on EU activity. However, as seen in the post-Maastricht era, they came up with solutions and agreements that bind their own hands to meet shared policy challenges.\textsuperscript{16}

1.3. Central Research Question and Hypotheses

The central hypotheses that are to be verified or falsified within this thesis have been mentioned already in the introduction. This section presents the hypotheses and its methodological approach explicitly.

The first aim of this master thesis is to compare the fiscal policy framework of the European Union with a European federal case – the Federal Republic of Germany. In this comparison, similarities and dissimilarities in the fiscal policy structure of the two cases are discussed on the one hand. On the other hand, the comparison shows how the EU should develop in the future to stabilize its fundamentals as well as the Euro area. As a result, the thesis analyses the fiscal relationship between the European Union and the German Bund and Länder. Since Germany is a federal state but the EU a federal union the comparison mostly focuses on legislative acts set out in Germany’s “Grundrecht” (Basic Right) and in European Law. Furthermore, the research will be based on the institutional construct connected with fiscal policy.

As the research shows, the Union and Germany share some similarities in their fiscal frameworks. However, the question remains which reforms will be supported and

\footnote{Bickerton et al. (2015, pp. 707, 711ff.).}
perhaps implemented by Germany. After conducting this master thesis, its conclusion will answer this question. Since Germany is one of the founding member states of the European Union, answering this question seems very important for a better understanding of the European integration process. Nevertheless, it is already clear that the European Union has, besides the cohesion funds mentioned above, no Fiscal Equalization process as in place in Germany. Therefore, the obvious theme to point out is if Germany supports such a Fiscal Equalization also on European level. To answer this question in the best possible way, the author conducted a media analysis and examined the reactions of four German parties to different reform proposals made by French President Emmanuel Macron and Commission President Jean-Claude Juncker. Moreover, the events during and after the crisis present new challenges for the fiscal policy construct of the EU as such. The conclusion will also answer how the Union’s fiscal construct should evolve in the future.

Based on the explanations made above this thesis aims to answer the following hypotheses:

**Hypothesis 1**

German coalition talks have a negative effect on further European reforms towards a transfer system.

**Hypothesis 2**

The European Union’s agenda depends on Germany’s national policy.

The hypotheses are examined by means of analyzing newspaper articles dealing with reform steps proposed by Macron and Juncker and opinions concerning Europe expressed by four German parties. Furthermore, the research took the most important European treaties and regulations as well as the legal situation in Germany into consideration. With a strong focus on fiscal policy, the analysis subsequently evaluates European and German Treaties as well as EU proposals, in particular, the Treaty on Stability, Coordination and Governance in the EMU (TSCG) and the Stability and Growth Pact (SGP) as they determine the status quo of European fiscal policy. Additionally, the thesis analyses the German “Grundgesetz” (Basic Law) extensively in order to assess the fiscal framework of one European member state. It
is also essential to examine the parties’ positions towards a fiscal equalization scheme on a European basis.

By answering these two questions the thesis aims at providing a thorough understanding whether Germany’s national politics play a predominant role in influencing Europe’s agenda and whether the proposed reform steps are feasible.

The theoretical concepts mentioned above find application in the review of this hypotheses since the theoretical shape of the fiscal policy is considered.

1.4. Methodology

1.4.1 Media Analysis

Since the question whether the political agenda of the Union depends on national politics, in this case elections and subsequent coalition talks in Germany, is answered in this thesis, analyzing media reporting seems to be a logical step. Content analyses are carried out systematically, with the help of theoretical principles and follow strict rules of procedure, dividing the material into content analytical entities. Ideally, after such analyses are carried out, it should be possible to draw conclusions about certain aspects of communication. In the case of the present research, the aim is to draw conclusions from the reactions of the individual coalition parties to the Juncker speech and that of Macron reported in online newspapers. Mayring defines three basic forms of interpretation of which summarizing is best suited for the subsequent analysis of the articles. In view of this method, the research is divided into a first and a second reduction of the material, defined as summarizing, paraphrasing and reducing. The most important criterion is the classification and evaluation of the content provided by the newspapers and magazine listed below\(^\text{17}\).

The articles used for the analysis come from online archives of the respective newspapers and directly from the magazine and are available free of charge, although with some restrictions, in German and English. This means that no costs are incurred for the readers and are therefore accessible to a large audience. Since the author speaks the national language, German articles are mainly examined.

\(^{17}\) Mayring (2015, p. 85).
Using only anglophone articles for this content analysis would have restricted the informative value of the research. The results may differ but are not less interesting to analyze or of lesser importance.

However, the research was conducted at the same time as the exploratory negotiations took place. As a result, the analysis has drawbacks. Firstly, many of the points remained speculative as a recent process of government formation, which was subject to spontaneous changes and the collapse of coalition talks, was observed. Secondly, since the analysis took only one member state into consideration, a generalization cannot be made. Political calendars of member states might, in general, have an impact on European policy-making or even slow down this process but answering this was not the aim of the analysis. This question can serve as a basis for further research.

1.4.2 Material

One can distinguish between two groups of newspapers in Germany, the quality papers (also called "quality purchase magazines") and the popular papers (boulevard newspapers). Among the first are, for example, the Frankfurter Allgemeine Zeitung (FAZ) and the Süddeutsche Zeitung (SZ). The selected newspapers are ranked among the quality papers in Germany. The newspaper media consulted will be briefly characterized below.

Süddeutsche Zeitung is Germany’s largest national subscription daily newspaper. According to its editorial staff, the SZ is striving for "liberal, democratic social forms based on liberal and social principles". It is described as moderate left\textsuperscript{18}.

The German commercial and financial newspaper is published by the Düsseldorf publishing group Handelsblatt, an economically liberal daily newspaper. It is the paper of record for the German business community and obliged to publish official stock exchange notifications. Since 2014 Handelsblatt has been providing a digital edition in English, called Handelsblatt Global Edition\textsuperscript{19}.

Frankfurter Allgemeine Zeitung, first published in November 1949, has outnumbered all other German quality newspapers, except for tabloids, in international circulation.

\textsuperscript{18} Eurotopics (2017a, online).
\textsuperscript{19} Eurotopics (2017a, online).
Defining itself as conservative, FAZ stands for the political orientations to the moderate right

Die Zeit is a nationwide liberal weekly newspaper, published for the first time in February 1946, which appears every Thursday. The newspaper focuses on target groups with high-level of education, traditionally, above all, academics. Die Zeit fosters public debates and often publishes different opinions in series of articles.

Tagesspiegel is a regional daily and liberal newspaper from Berlin. In addition to the Berliner Zeitung, it has the highest circulation among Berlin’s newspapers which offer a subscription service. It is mainly read in the western districts of the city. The motto of the newspaper is “to recognize the causes of important matters.”

Another regional newspaper, the left-aligned daily newspaper Die Tageszeitung (taz), was founded in 1979 in West-Berlin. Being on the left of the political spectrum and founded as a self-governing project, it is mostly read by the alternative scene.

The Financial Times (FT) is a liberal economic newspaper published in London, printed on salmon-colored paper. FT was published for the first time in 1888. Due to its numerous political articles, it is not considered as a pure financial newspaper.

The Economist is a British weekly magazine, with a focus on reports about politics, economics, and finance, as well as science, technology, and art. Liberal and global reporting are characteristic for this magazine which is sold in about 200 countries. Every article is published anonymously.

1.4.3 Implementation of the Analysis
The analysis has been conducted according to Mayring’s principles for the development of a qualitative content analysis. Accordingly, the first step is to formulate research questions and hypotheses as well as to define on whom statements are to be made before examining precisely the given material. The

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20 Eurotopics (2017a, online).
21 Eurotopics (2017a, online).
22 Eurotopics (2017a, online).
23 Eurotopics (2017a, online).
24 Eurotopics (2017b, online).
25 Eurotopics (2017b, online).
The process of understanding sources is constitutively dependent on the understanding of latent structures of meaning. All aspects of the analysis necessary for answering the research questions are put inductively into categories and carefully revised within the analysis process and are, as the last step, interpreted to answer the hypotheses.

The articles of the newspapers were selected according to the following criteria:

1. The articles were accessible online, in German or English
2. An online research was conducted using the keywords “Juncker” and “Macron”, and from October 15th onwards “Jamaica coalition Europe”, only texts which related to the keywords were used, resulting in 80 articles
3. The articles were published between September 13th, 2017 and October 31st, 2017

Before the investigation could be carried out, the material to be examined was narrowed down to a manageable size to get the best possible results. The restriction was made based on the above-mentioned criteria and resulted in a spectrum of German quality magazines and two English-language papers. The analyzed data consisted of 76 German and English online newspaper articles and four magazine articles offering a broad variety of accessible texts with different political angles. Due to predefined narrowing, the conducted research had to focus on keywords and the specific time span mentioned above. The specific time span was chosen to ensure that sufficient information on the two speeches could be found and that exploratory talks on European topics were held after the beginning of the coalition negotiations in Germany on October 15th. As the concern of this thesis is to answer the question whether coalition talks in Germany have a negative influence on Europe’s political agenda the data considered seems to be sufficient to give the two hypotheses plausibility. Subsequently, articles on the two speeches were searched by using the keywords “Juncker” and “Macron”. After the negotiations on a new federal government began, articles which are related to the parties’ positions concerning their opinions on the future of Europe were also included in the evaluation process by using the keywords “Jamaica coalition Europe”. These articles have been further

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26 Mayring (2015, pp. 32, 44).
27 Mayring (2015, p. 87).
filtered to ensure that they are actually related to the topic. Only those articles which were in fact related to party positions and reactions to the reform proposals were further analyzed. Following the method of going from the general to the specific, crucial points of the articles were highlighted, filtered and categorized in a grid\textsuperscript{28} (see Appendix B). The reporting on the parties' reform responses is therefore examined in five main categories – Financial Transfers, Euro Finance Minister, Commoditization of Debt, Eurozone Budget, Eurozone Expansion.

Appendix A contains a chronological listing of all the articles examined, Appendix B the categorization scheme.

Before the actual analysis of the reporting is carried out, fundamental issues are discussed regarding the fiscal policy constructions of the European Union and Germany. The first chapter provides introductory information on the Union's fiscal policy. In view of the hypotheses, chapter two presents the fiscal architecture of Germany.

1.5. Scientific Relevance

The empirical relevance of this issue is the increased importance of the need for reforming the European Monetary Union and also the fiscal policy construct. Although the build-up of fiscal capacity at the EU level has been slow\textsuperscript{29}, in the long term, the current system constituting the EMU is no longer acceptable, as it shows some weaknesses that leave the Union unable to avert further crises. Without completing and overhauling the EMU the Union will limp from crisis to crisis with member states driving further apart. Doubtlessly, the possibility of a further crisis in the coming years could be reduced, if the system undergoes a substantial modification, as already pointed out in different papers on the future of the EMU.

Hence, the disclosure of that debate establishes the scientific relevance of the present explanations. In 2012, the European Commission launched a European Debate by publishing its Blueprint for a Deep and Genuine Economic and Monetary

\textsuperscript{28} Mayring (2015, p. 85f.).
\textsuperscript{29} Jabko (2014, p. 124).
Union. Only a few years later, Jean Claude Juncker issued the so-called Five Presidents Report, which builds on the report “Towards a Genuine Economic and Monetary Union” of 2012 and gives recommendations on how the EMU should be completed in the future. All these reports and recommendations have something in common – their focus of attention is on the next steps on better economic governance in the Euro area. Additionally, progress must happen on different fronts. As steps towards a Fiscal Union for fiscal sustainability and fiscal stabilization have to be taken, it is of utmost importance to create hypothetic constructs that accomplish these goals.

After both Commission President Jean-Claude Juncker and France's President Emmanuel Macron underlined in their speeches the need to reform the European Union in many areas and the task of the member states to grow closer together, reforming the Union’s architecture is currently a widely discussed topic. Since, in addition to France’s President, the German Chancellor Angela Merkel plays an important role at European level, it is now her task, in collaboration with Macron, to take steps in the proposed direction. Macron had chosen the date of his speech with ulterior motives. His aim was to incorporate his ideas into the German coalition negotiations. And, in fact, all German parties commented on his speech. According to the Chancellery, Macron had made an interesting contribution to a debate that should be further clarified on European level as soon as a new government is formed. CSU, FDP and the Greens, partners of a possible Jamaican coalition reacted differently. While Merkel must be cautious with statements on European affairs until the formation of a new federal government, because the different positions of the parties must first be discussed, the parties cannot give the impression that the current debate is of no importance to Germany. The Chancellor considered Macron's and Juncker's proposals for reform as "important elements" for future integration. According to her statements, there is a “high degree of consistency” with the French president, for example with a view to harmonizing corporate taxation in the EU30. Additionally, the Chancellor’s statements towards a rebuilding of the monetary union could be described as positive and open. However, in absence of a legitimate

30 DPA (2017b, online).
government supported by a parliamentary majority, Merkel has only a limited room for maneuver\textsuperscript{31}.

After the Tallinn summit in October 2017, EU Council President Donald Tusk had already set up a special summit in December for the Eurozone countries to discuss the different reform plans for the monetary union. Tusk wants to take first reform steps by June 2018 at the latest to embark the EU on new paths. He also drew up a Leaders’ Agenda that will guide EU action in the future. Commission Vice-President Valdis Dombrovskis is convinced that an agreement can be reached\textsuperscript{32}. However, voices from the EU Commission hope that a new German federal government will welcome and facilitate the discussions on the deepening of EMU.

With Macron and Juncker suggesting deepening the Union, reform steps and closer cooperation among the member states, the related research is not only a current topic but also important to understand in which direction the new German federal government is willing to make compromises.

Disagreements and disputes, of which several are found in the social and political theory, frequently determine this debate. Two of these theories, namely intergovernmentalism and new intergovernmentalism, are particularly relevant to the present work because they deal with the emergence of European integration, which ultimately also affects the research question, and shows towards which further reforms member states should define their preferences, establishing an ever-closer Union. Whether the positions of the two theories can be justified, is answered in the conclusion.

\textsuperscript{31} Mussler (2017, online).

\textsuperscript{32} AFP (2017, online).
1.6. Literature Review

A considerable number of critical papers already examined the functional deficiencies in EMU’s framework exposed by the sovereign debt and banking crisis. They all share the consensus that a great need of further reforms, to render the EMU a sustainable project, exists.

Charles Wyplosz (2006) revisits the debates and controversies of the discussions that led to the Maastricht Treaty. This paper explores the influence of academic thinking on this debate.

In their report Completing the Euro – A road map towards fiscal union in Europe (2012) the Padoa-Schioppa Group, supervised by Henrik Enderlein, examined how to cope with the sui generis construction of the EMU and how to deal with heterogeneities in a currency union. In addition, Mathieu and Sterndyniak (2007) give an overview of disparities among Euro area countries. Alfonso and Sousa (2011) investigated the macroeconomic effects of fiscal policy in the US, the UK, Germany, and Italy. Ian Begg et al. (2015) considered what the EMU required to be more sustainable following the successive crisis. Ioannou (2015) made a comparison of the EU’s institutional response to the crisis. He answered the question why the EMU became deeper and more integrated during the crisis although many feared for its survival.

Matthes and Iara (2016) suggest that only a limited set of reforms would be sufficient to make EMU sustainable in the future. The authors examine different arguments for more fiscal integration in a systematic manner.

Marzinotto, Sapir, and Wolff (2011) argue that the absence of a fiscal union with corresponding authority over fiscal, structural and banking policies is the reasons for the Euro area’s shortcomings. Their main argument is that EMU’s architecture has to be strengthened by taking steps towards a fiscal union. Nicholas Vrousalis (2006) claims that pooling of some fiscal instruments over which the member states have no or little control is the ideal future approach.

Vilpisaukas (2013) assesses the decisions taken since the start of the financial and economic crisis in the light of the liberal intergovernmentalist and neofunctionalist
debate before he presents a framework that links the accounts of the integration process with a domestic politics approach.

Important German institutions provide sufficient material that gives an overview of the country’s fiscal framework. Germany’s Federal Ministry of Finance published an explicit explanation concerning the financial relationship between Bund and Länder. Furthermore, the Ministry provides details about the fiscal framework as a whole. The Deutsche Bundesbank drafts a monthly report discussing recent developments and future scenarios.

Besides that, also famous scholars discussed Germany’s fiscal policy. Beate Jochimsen and Robert Nuschler (2010) analyzed the deficits of the German Länder for the period 1960 to 2005 and tested different hypotheses regarding the political economy of public deficits. Jochimsen (2008a) also argued that considering budgets in severe financial distress constitutes for reform necessities.

As for the empirical importance of debt sustainability, Potrafke and Reischmann (2015) examined whether the fiscal policies of U.S. and German state governments are sustainable. Kitterer and Finken (2012) tested whether the national budgets of the Länder are sustainable. Helmut Seitz (1998) looks at the fiscal performance of the German Länder since 1970. In another article (1999), Seitz investigated subnational government bailouts of two West German states. Additionally, he identifies what causes the financial trouble of both states and why this forced the federal government to bail out these two states. While some of these studies find that the fiscal performance of the German Länder is sustainable, others do not (Jochimsen 2008b).

For Germany’s fiscal equalization, different approaches have been used in the identification of its effects and incentives. Baretti et al. (2001) emphasize the fiscal equalization as creating wrong incentives through its marginal charges. However, Buettner (2009) concludes that fiscal equalization transfers contribute to achieve fiscal balance among the German municipalities and are quite effective in providing fiscal assistance.

While the literature on the two fiscal frameworks is very broad, only a few authors dealt with the question to what extent member states' political calendars influence the political agenda of the Union. Furthermore, there is only very little literature on
how a possible Jamaica coalition would have shaped the future path of Europe. Therefore, the thesis aims at adding to the limited literature concerning these two questions by beginning with an extensive literature review followed by a media analysis.

1.7. Structure

The thesis consists of five parts. Following the introductory chapter, part two and three will explain the two fiscal frameworks. The second part will deal with the fiscal policy of the European Union. Part three will evince how fiscal policy is structured in Germany, how fiscal responsibility is divided between the Bund and the Länder, how the most important mechanism, the Fiscal Equalization, works and which implications it has for the different Länder. Part four will focus on the four German parties. Part five will summarize the most important points made by Macron and Juncker before the main findings of the media analysis will be presented in part six. Chapter seven will assemble the previous parts, answer the two hypotheses and discusses possible political futures in Germany. The last part concludes the most important findings, shortly presents advantages and disadvantages of the current fiscal architecture in Europe and gives recommendations on the way forward.
2. European Fiscal Framework

Within the asymmetrical policy architecture of the Economic and Monetary Union, the centralized monetary policy by the ECB has to go along with a decentralized economic and fiscal policy by the EU member states. The Union has few mechanisms or policy instruments of its own to control the economy. It therefore has to depend on the coordination of member state policies. The fact that must be accepted with such an architecture is that policies remain stubbornly national and further integration is hard to achieve. Additionally, national structural policy making can severely jeopardize EMU functioning. However, Article 119 to 144, 139, 219, and 282 to 284 of the Treaty on the Functioning of the European Union as well as Protocol No. 12 on the excessive deficit procedure, Protocol No. 13 on the convergence criteria in the Annex to the TFEU and several Council Regulations form the legal basis for the European fiscal policy framework.

In order to guarantee the functioning of the Economic and Monetary Union, the framework to prevent unsustainable public finances needs to be powerful and equipped with suitable mechanisms if a member state faces severe financial problems, but also member states have to respect the Union’s framework.

Hence, this legal framework aims at creating a strong and effective basis for the coordination and monitoring of the member states’ fiscal policies. The structural reforms conducted between 2011 and 2013 are direct responses to the sovereign debt crisis as the Euro area was set up without powers of strict surveillance over budgetary imbalances and crisis resolution tools. At the end of 2011, a reform, which amends the Stability and Growth Pact as part of the “Six-Pack”, entered into force. In 2013, the intergovernmental Treaty on Stability, Coordination and Governance (TSCG), including the Fiscal Compact, and a regulation on the assessment of national budgetary plans came into effect.

Shortly after the member states signed the TSCG, in November 2012 the Commission published its Blueprint for a Deep and Genuine Economic Monetary

33 Begg (2013, p. 54).
34 Marzinotto et al. (2011, p. 2).
35 Marzinotto et al. (2011, p. 1).
Union. The full deployment of the new Six Pack provisions, the adoption of the Two Pack regulations and the regulations on the Single Supervisory Mechanism for Euro area banks marked the report’s primary goals. Consequently, the adoption of the Two Pack fulfilled one of the immediate primary goals.

On the one hand, the reforms target the design failures made at the beginning of the EMU and aim at reducing the asymmetry of EMU’s policy architecture to avoid spillover effects from unsustainable financial developments. On the other hand, the aim is to strengthen the principle of sound public finances by monitoring the fiscal events in every member state, by the creation of stricter rules and by imposing sanctions if member countries do not obey these rules.

The new legislations establish a reinforced EU fiscal framework and promote the member states in their commitment to achieve the defined budgetary objectives in favorable economic times. However, even if new rules have been created, it still depends on the member states to fulfill them. As seen in the past, this was not always the case. By connecting this commitment with an enhanced surveillance procedure, the agreed legislations are expected to have a strengthening effect on the credibility of the European fiscal framework of being able to prevent the Union from a future crisis as it deals with past shortcomings. However, although the member states have taken decisive measures to address EMU’s shortcomings, it still has to be deepened further.

This theoretical section presents the European Union’s fiscal framework, in consideration of the last reforms, in detail.

36 European Commission (2012b, pp. 5, 12, 15).
38 European Parliament (2017a, online).
2.1. Legal Bases

Art 3(3) TEU, which sets out the Union’s obligations, states that “the Union shall establish an internal market. It shall work for the sustainable development of Europe based on balanced economic growth and price stability […] and it shall promote economic, social and territorial cohesion and solidarity among Member States”. Art 120 determines that member states shall conduct their economic policies with regard to the achievement of these objectives of the Union. Both the member states and the Union are bound to act in accordance with the principle of an open market economy with free competition and in compliance with the principles of Art 119, adopting an economic policy, whose basis is the close coordination of member states’ economic policies.

Art 122 TFEU allows the Council, based on a proposal from the Commission, to grant, under certain conditions, Union financial assistance to member states that are in difficulties or seriously threatened by natural disasters or exceptional occurrences beyond their control. However, Art 125 states that the Union, as well as member states themselves, shall not be responsible for liabilities of any or another member state.

Art 121, specifying the multilateral surveillance, and Art 126, setting out the excessive deficit procedure and Protocol No. 12 on the excessive deficit procedure provide the central legal basis for the Stability and Growth Pact. After the 2011-reform, the SGP now consists of different Council Regulations as well as the “Code of Conduct”, an opinion submitted by the Economic and Financial Committee.

Art 127 to 133 TFEU regulate the field of monetary policy. Institutional provisions are set out in Art 134 and 135. Chapter 4 of the TFEU, including Art 136 to 138, contains provisions specific to member states whose currency is the Euro. Art 139 to 144 regulate provisions for member states, which do not fulfill the necessary conditions for the adoption of the Euro.

In addition, a wide range of Council Regulations lays down the strengthening and enforcement of the European budgetary surveillance over macroeconomic policies

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40 TFEU (2012, Art 3 TEU).
41 European Parliament (2017a, online).
and financial market stability. It also determines the procedure conducted when a country faces an excessive deficit and the sanctions imposed if a country’s path towards averting a further deficit is not in compliance with the prescribed legal provisions.

2.2. Stability and Growth Pact

The initial Stability and Growth Pact, agreed in 1997, consisted of two Council Regulations, which the resolution of the 1997 Amsterdam European Council meeting underpinned. The SGP consists of two main blocks – the preventive arm and the corrective arm (Excessive Deficit Procedure, EDP). Regulation EC 1966/97 established the SGP’s preventive arm. It impedes government deficits from becoming excessive and endangering fiscal stability. The main objective of the SGP is that all member states commit to achieve the “medium-term objective of budgetary positions close to balance or in surplus”\(^{42}\). It foresees to ensure sustainable public finances to stabilize the Economic and Monetary Union in which an effective monetary policy successfully maintains price stability while it supports growth\(^{43}\).

As mentioned above, Primary Union law with Article 121 and 126 as well as Protocol No. 12 provide the legal basis for the SGP. The detailed implementation of the rules and procedures provided by the treaty are set out in the Secondary Union law.

With the beginning of the crisis and the closely linked risks to financial stability, it became clear that the SGP did not work properly in avoiding the accumulation of debt and pursuing adequate fiscal policies in economic favorable times. Additionally, the correction of government deficits below 3% of GDP turned out to be insufficient in circumventing unbearable developments of government expenditure and debt levels\(^{44}\). In 2010, the Commission issued a list of necessary measures to strengthen economic governance in the Union. A number of reforms followed. The Six Pack, see chapter 2.5., reformed and amended the rules of the Stability and Growth Pact in such a way that the Pact now provides the main instruments for the surveillance of

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\(^{42}\) REG 1466/97/EC (1997, (2)).


\(^{44}\) European Commission (2012a, p. 66).
member states’ fiscal policies through its preventive arm (REG 1466/97/EC) and for the correction of excessive deficits through its corrective arm (REG 1467/97/EU)\(^{45}\). In sum, the following measures provide the foundation of the SGP:

- Regulation (EU) No 1173/2011 of 16 November 2011 on the effective enforcement of budgetary surveillance in the Euro area
- The ‘Code of Conduct’, an opinion of the Economic and Financial Committee, contains specifications on the implementation of the SGP and guidelines on the format and content of Stability and Convergence Programs\(^{46}\).

Regulation 1466/97 specifies the procedure for the implementation of the surveillance of the Pact. The regulation foresees both, the submission of stability and convergence programs (SCP) by all member states and the possibility of triggering the early warning mechanism. Regulation 1467/97 defines when a temporary excess of the deficit over the 3% GDP threshold is accepted exceptionally. Furthermore, it contains clarifications on the Excessive Deficit Procedure\(^{47}\).

The medium-term budgetary objectives (MTO) ensure the sustainability of the member states’ public finances as they set specific fiscal targets. The new reform in 2011 defined the new term “expenditure benchmark”. It complements the MTO “by putting growth in net expenditure on a sustainable path and therefore helping to move towards or maintain the MTO itself\(^{48}\). As the definition indicates, it aims to facilitate the financial planning and record of the member states by assuring the

\(^{45}\) Begg (2013, p. 57).
\(^{46}\) European Parliament (2017a, online).
\(^{48}\) European Commission (2017a, online).
financing of expenditure programs by the same source of revenue. This is a further agreement that should help in avoiding mistakes made in the past when the states used additional borrowing to finance temporarily unsustainable expenditure developments. However, it has to be said, that the benchmark does not prohibit governments to spend money, the spending to GDP ratio is not a bounded variable. It simply states that all changes to expenditure have to be financed through additional revenues and not by taking out loans⁴⁹.

Whether the member states obey the prescribed benchmark depends on the achievement of their MTOs. If a member state has achieved its MTO, the expenditure benchmark “is complied with when the annual growth of government expenditure, net of discretionary measures taken on the revenue side, does not exceed a reference medium-term rate of potential GDP growth⁵⁰”. If a member state has not yet reached its MTO, the expenditure benchmark “is complied with when the annual growth of government expenditure, net of discretionary measures taken on the revenue side, does not exceed a rate below reference medium-term rate of potential GDP growth⁵¹”.

With the reformed preventive arm, the SGP allows a stronger and faster response if a member state diverges significantly from its MTO or from the objective of obtaining the adjustment path towards its MTO due to a constant revision of these objectives⁵².

With a view towards the future, it becomes obvious that the enhanced SGP focuses on establishing a framework that binds the member states to look more effectively at their developments in public finance on an ex-ante basis in avoidance of getting into trouble. Due to its improved monitoring, the Pact clearly aims at a more effective compliance with the rules and tries to identify deviations at an early stage. Such effective multilateral fiscal rules can help in countering the problem of unsustainable fiscal developments by providing an external governance to national budgetary reforms.

⁴⁹ European Commission (2012a, p. 70).
⁵⁰ European Commission (2012a, p. 70).
⁵¹ European Commission (2012a, p. 70).
⁵² Economic and Financial Committee (2016, p. 5).
2.3. **European Semester**

As the political commitment of the Europe 2020 strategy has already been pushed through focusing on the five EU-wide objectives, economic policy coordination also demanded an institutional design for reinforcement. The introduction of the European Semester aims at enhancing economic policy coordination\(^{53}\). The European Semester, introduced in 2010, coordinates member states’ economic, structural and fiscal policies throughout the year and enhances ex-ante coordination. With its start in November, it focuses on the first six-month period of each year. The Semester’s primary objectives are the ensuring of sound public finances by avoiding excessive government debt, the prevention of excessive macroeconomic imbalances in the EU, the support of structural reforms and the creation of more jobs and growth\(^{54}\). Since some of these aims intersect with the five Europe 2020 headline targets, the Europe 2020 and Stability and Growth Pact commitments undergo a simultaneous report and evaluation.

In October 2015, based on a decision made by the Commission, the European Semester was further optimized with a view to better integrate the Euro area as well as national dimensions by issuing the country-specific documents three months earlier than the previous semesters did. Besides that, the Semester also grants to secure an enhanced democratic dialogue, a promotion of convergence by benchmarking and pursuing best practice as well as supporting reforms from the European Structural and Investment Funds\(^{55}\).

The Semester follows a clear timetable, according to which the member states have to submit their policy plans, which are then assessed at EU level, and receive country-specific recommendations for their national budgetary and reform policies from the Commission. It foresees a division of labor between the Commission and the Council. The Commission analyses budget, macroeconomic and structural reform plans of each country and provides recommendations. The Council approves and formally adopts the proposals made by the Commission\(^{56}\).

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53 Bundeskanzleramt Österreich (2016, online).
54 European Commission (2017b, online).
55 European Parliament (2017b, online).
56 European Commission (2016, online).
During the Semester, the EU countries adjust their budgetary and economic policies insofar as they also effectively meet objectives and recommendations agreed at EU level\textsuperscript{57}.

The annual cycle of economic governance coordination starts with the Commission’s publication of the Annual Growth Survey and the Alert Mechanism Report in November. Concurrently, the Commission provides member states with its opinion on their draft budgetary plans and with policy guidance for the following year. Afterwards, the member states adopt their budgets\textsuperscript{58}.

The autumn package is followed by the winter package beginning in February, which includes Country Reports on the overall economic and social developments in each member state and In-Depth Reviews of countries with potential risks published by the Commission. The spring meeting of the European Council continues by adopting economic priorities covering fiscal and macroeconomic structural reforms based on the Annual Growth Survey. From March until April, member states present their National Reform Programs on economic policies and their SCPs on medium-term budgetary strategies\textsuperscript{59}.

After the Commission’s assessment of both programs, the countries receive country-specific recommendations issued by the Council (ECOFIN for those based on Art 121 and EPSCO regarding employment recommendations)\textsuperscript{60}. The recommendations provide policy guidance specific to each EU country on how to promote employment and growth without violating the development of sound public finances. Moreover, they also contribute to the objectives of the EU 2020 strategy, which the Commission also implements and monitors through the European Semester\textsuperscript{61}. National governments are obliged to incorporate these recommendations into the reform plans and national budgets for the upcoming year\textsuperscript{62}.

\textsuperscript{57} TSCG (2012, Art 3). European Commission (2017b, online).
\textsuperscript{58} European Council (2017, online).
\textsuperscript{59} European Council (2017, online).
\textsuperscript{60} Bundeskanzleramt Österreich (2016, online).
\textsuperscript{61} European Commission (2017b, online).
\textsuperscript{62} European Commission (2017b, online).
If a country does not act on a recommendation within the given timeframe, there is the possibility to impose policy warnings. To initiate enforcement actions with respect to incentives and sanctions should an excessive deficit persist offers another possibility of sanctioning\textsuperscript{63}.

Although the overhauled European Semester ensures that governments plan ahead to avoid unsustainable budget figures, the Semester still misses an enforcement mechanism standing in relation with the economic policy recommendations. The non-implementation of country-specific recommendations cannot trigger sanctions.

2.4. **TSCG, Fiscal Compact**

The TSCG entered into force on 1 January 2013, shortly after the Six Pack. It is an intergovernmental treaty, hence it is not rooted in EU law but an agreement between the 25 signatory countries, reestablishing fiscal policy coordination into an intergovernmental treaty. The Treaty contains six titles and complements the SGP by obliging the signatories to apply various rules. The first two titles define the purpose and scope of the Treaty and its relationship with the law of the Union. Title III sets out the Fiscal Compact and the provisions most closely linked to the Stability and Growth Pact, including clarifications on the EDP. Title IV commits the contracting parties “to work jointly towards an economic policy that fosters the proper functioning of the economic and monetary union and economic growth through enhanced convergence and competitiveness\textsuperscript{64}” achieved by ex-ante discussion and, where possible, coordination of economic policy reforms. Title V and VI regulate institutional issues. Title V prescribes informal Euro summits and defines their aims as well as broad rules. Title IV covers the ratification procedure and the Treaty’s legal status. The Treaty’s last article, Art 16, defines the objective of integrating the substance of the Treaty into the European legal framework within five years\textsuperscript{65}.

Concerning its legal structure, the Fiscal Compact follows the two-fold approach of the SGP. Through preventive measures, member states shall maintain a medium and

\textsuperscript{63} Bundeskanzleramt Österreich (2016, online).
\textsuperscript{64} TSCG (2012, Title IV Art 4).
\textsuperscript{65} TSCG (2012, Art 16).
long-term fiscal sustainability. In cases where member states stray from the right path, the EDP ensures the correction of gross policy errors. Since the 25 contracting states committed themselves to include key elements of the SGP mirrored within their national legislation and to keep up the path of enhancing the surveillance and coordination mechanisms of budgetary policies, the TSCG complements especially the preventive arm of the SGP.\(^{66}\)

Art 3 obliges the signatories to incorporate the medium-term budgetary objective and the adjustment path towards it into their national legal systems, through preferably constitutional provisions of binding force. The provisions, which the Fiscal Compact contains, regulate, despite the intergovernmental status the Treaty has, that the European Commission and the Council of the European Union will conduct the task of monitoring the yearly budgetary plans. In addition, EU bodies will monitor compliance with the national fiscal rules, including the corrective measures taken in case of deviation from the MTO or the adjustment path towards it. Apart from these aspects, the Fiscal Compact underpins the significance of strict observance of the debt reduction benchmark determined by the Six Pack. Member states are committed to follow the proposals or the recommendations issued by the Commission under the deficit requirements until a qualified majority of countries vote against it.\(^{67}\)

Although some countries preferred to adopt similar provisions within the framework of EU law, the TSCG nevertheless supplements and runs in conjunction with the Six Pack legislations. It is a major step in the direction of further integration, and reflects the willingness to consolidate the enhanced SGP even more. With the establishment of the TSCG, the signatories’ primary objective is to achieve greater budgetary and economic coordination concerning fiscal discipline, economic policy convergence and greater governance of the Euro area.\(^{68}\)

The TSCG also emphasizes attention to the EDP through requiring countries that are subject to an EDP to put in place a budgetary and economic partnership program (EPP) including a detailed description of structural reforms that will ensure a lasting correction of the excessive deficit and a cooperative behavior. Finally, the Fiscal

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Compact strives for an increase in coordination and planning of national debt issuance. To guarantee that, the Treaty requires a regular preliminary report by the signatories on public debt issuance plans to the Council and Commission\textsuperscript{69}.

2.5. **Six Pack**

In March 2010, when the crisis in Greece became visible, the European Council requested proposals from the Commission, which would strengthen economic governance by June 2010 within the basic conditions set by the TFEU\textsuperscript{70}. In September 2010, the Commission presented the Six Pack, marking the first package of legislative proposals to strengthen economic governance. By the end of December 2011, the reforms set out in the Six Pack on economic government came into force. These reforms apply to all member states although certain parts concern only the Euro area\textsuperscript{71}.

The Six Pack includes a significant reform of the SGP framework as well as new legislation. The Union’s monitoring tasks are now extended to macroeconomic surveillance. The Pact not only tightens macroeconomic surveillance to reduce moral hazard and includes an enforcement mechanism but also reshapes the fiscal framework at EU and national level. It consists of the following legal acts:

- Regulation (EU) No 1175/2011 of 16 November 2011 amending Regulation 1466/97 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies
- Regulation (EU) No 1177/2011 of 8 November 2011 amending Regulation 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure
- Regulation 1173/2011 of 16 November 2011 on the effective enforcement of budgetary surveillance in the Euro area
- Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States

\textsuperscript{69} TSCG (2012, Art 5 (1), (2), Art 6).
\textsuperscript{70} Chang (2013, p. 259).
\textsuperscript{71} European European Commission (2012a, p. 67).
• Regulation (EU) No 1176/2011 of 16 November 2011 on the prevention and correction of macroeconomic imbalances
• Regulation (EU) No 1174/2011 of 16 November 2011 on enforcement action to correct excessive macroeconomic imbalances in the Euro area[^72].

The Pact’s Regulation 1176/2011 on the prevention and correction of macroeconomic imbalances marks a major consequence for fiscal surveillance. It addresses the lessons learned from countries like Ireland and Spain, where government deficit and debt figures were not alarming before the crisis. However, in both member states these figures increased dramatically after the onset of the crisis, once the imbalances were unbundled. Although the imbalances were principally not of fiscal nature, they caused unsustainable expenditure developments. As a result, the regulation requires timely assessments and corrections of risks as they arise[^73].

The Council Directive 2011/85/EU on requirements for budgetary frameworks of the member states sets minimum requirements for the member states’ fiscal frameworks. Article 5 and 6 require the consistency between national fiscal governance and the European budgetary discipline provisions. Art 9 of the directive promotes an effective medium-term budgetary framework, which shall support national economic policy making in following a multiannual fiscal planning perspective[^74]. As stated correctly by the European Commission, the Directive sets only minimum requirements, particularly with regard to medium-term budgetary frameworks, transparency, and forecasting. As long as the frameworks’ quality and the consistency of their rules are in accordance with the achievement of EU obligations, the member states’ different frameworks meet the requirements of compatibility with the European budgetary framework[^75].

Pursuant to the Six Pack legislation, the preventive arm of the SGP has a new dimension, which is easier to supervise. Previously, the Commission analyzed a country’s structural balance to assess whether it has complied with all requirements. In order to detect and correct unsustainable expenditure developments during a

[^72]: EUR-Lex (2017, online).
[^75]: European Commission (2012a, p. 4).
member state’s adjustment towards the medium-term budgetary objective, the Pact added an “expenditure benchmark”. Moreover, supporting the corrective arm, a “debt reduction benchmark”, that permits the initiation of an EDP if an insufficient diminishing debt-to-GDP-ratio is detected, has been established. The Pact created a construct in which both debts and deficits can be used as a criterion for complying with the obligations determining budgetary discipline. The reform thus allows the opening of an EDP if the debt level exceeds 60% of GDP and does not comply with the debt benchmark, although the country’s deficit is below 3% of GDP\textsuperscript{76}. In the years before the beginning of the crisis, the states sought to find excuses for the continuity of weak public finances, which did not provide them with any room for maneuver to support their economies during the crisis. The reform aims to prevent the occurrence of such actions in the future\textsuperscript{77}.

The Six Pack also reformed the provisions concerning the SGP’s enforcement. For the Euro area, an early and gradual system of financial sanctions now ensures proper enforcement. If inadequate measures to correct a “significant deviation” from the appropriate adjustment towards the MTO are recognized, these financial sanctions can already be imposed within the preventive arm of the SGP. In comparison with the situation before the reform, a very late stage of the corrective arm foresaw sanctions\textsuperscript{78}.

If a “significant deviation” of a member state from its MTO or from the adjustment path towards it exists, the enhanced preventive arm allows tighter measures. The amended Regulation 1466/97 defines the concept of significant deviation\textsuperscript{79}. The Code of Conduct offers a detailed explanation regarding this new concept and states that the identification of such a significant deviation has to be evaluated based on outcomes as opposed to plans. The analysis procedure then consists of an assessment of the structural balance as a reference and of the impact of an excessive expenditure growth over the prescribed expenditure benchmark\textsuperscript{80}.

\textsuperscript{76} ECB Economic Bulletin (2016, pp. 9, 11, 19).
\textsuperscript{77} European Commission (2012a, p. 4).
\textsuperscript{78} Begg (2013, p. 57). European Commission (2012a, p. 3).
\textsuperscript{79} European Commission (2012a, p. 110).
\textsuperscript{80} Economic and Financial Committee (2016, p. 10).
As already mentioned in chapter 2.2, the definition if a significant deviation prevails depends on whether the member state has achieved its MTO. Should the Commission observe a significant deviation, it issues a warning under Art 121(4) TFEU. The Council will then examine the situation within one month and, considering the Commission’s opinion, issue a recommendation concerning the necessary policy measures within the deadline stipulated. Nonetheless, if a deviation results from an unusual event outside of the member state’s control, the deviation may be disregarded only if this does not jeopardize fiscal sustainability in the medium-term. According to the Code of Conduct, a member state has taken effective actions if it has followed the recommendation on the implementation of the measures required and its budget implementation tasks.

2.6. Two Pack

Two years after the Six Pack entered in force, the Two Pack became effective on 30 May 2013. Its two regulations address necessities that are specific to countries sharing the Euro. It therefore applies only to the Euro area. The Two Pack bases on the surveillance mechanisms reformed by the Six Pack. It aims at enhancing budgetary policy making in the Euro area since these countries have to be protected from the spillovers provoked by careless budgetary management. Additionally, it ensures further strengthening of the coordination of budgetary policies. In this regard, the Two Pack is the first attempt in translating the agreements of the TSCG into EU law.

As the events in recent years have shown, the risk of spillovers between Euro countries requires them to stick to a responsible budgetary management. With abiding by the rules set up in the treaties, member states act not just for their own benefit but protect also the others against undesirable fiscal outcomes. Securing that member states act in this way presents the key aim of the Two Pack. In this context, it is based on the existing surveillance framework at the EU level in which the EU

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81 REG 1175/2011/EU (2011, Art 10(3)).
82 European Commission (2012a, p. 80).
83 European Commission (2013, p. 73).
assesses the detailed information provided by the member states concerning their fiscal policies or situations and whether the member states comply with the legal requirements. The two legal texts, referred to as Two Pack, are:

- Regulation (EU) No 473/2013 of 21 May 2013 on common provisions for monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficit of the Member States in the Euro area; and
- Regulation (EU) No 472/2013 of 21 May 2013 on the strengthening of economic and budgetary surveillance of Member States experiencing or threatened with serious difficulties with respect to their financial stability in the Euro area.

With the Two Pack member states agreed on submitting their draft budgetary plans to the Commission as well as to the Eurogroup by October 15th, before they adopt their budgets. It follows logically that these draft budgetary plans contain the most important information about the countries’ budgets in general and the measures intended to be taken. After the member states submit their drafted budgetary plans, a long assessment procedure follows. The aim of this new assessment procedure is to analyze whether the intended measures are compatible with the SGP rules and related Council recommendations but also to analyze the future impact of these budgetary plans on the fiscal policies of the Euro area.

In view of the improvement of the efficiency of the Excessive Deficit Procedure, the Pack guarantees a more regular exchange of financial and economic information from member states under the EDP. Euro area countries in the process of correcting their excessive deficits will now notify the Commission and the Council every six months about their measures, already presented in the mandatory report required by the SGP, taken to correct their excessive deficits.

As stated above, equipping the countries with the best chance to make the right policy choices addresses the setting under which national policy-makers implement fiscal policy. Since the crisis revealed that spillovers and interdependencies between

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84 European Commission (2013, p. 73ff.).
85 European Parliament (2017a, online).
86 European Commission (2013, p. 75ff.).
87 Ioannou et al. (2015, p. 162).
member states can cause serious troubles, this axis of the Two Pack strengthens the quality of budgetary policy in order to avoid adverse fiscal policy outcomes that could affect once again the Euro area as a whole. It therefore defines a “common budgetary timeline”, containing several components, to build up a mutual approach to fiscal policy design. As part of this timeline, the continuity of uniform national procedures in the budgetary area is supported. Such an approach results in smoothening the national processes with EU surveillance\(^88\).

While the preventive arm of the SGP previously centered surveillance on the assessment of member states’ medium-term plans, included in their SCPs, and conducted every spring under the European Semester, the Two Pack introduced a new assessment procedure. Because of the common budgetary timeline for all Euro area countries, member states present their draft budgetary plans in the autumn, in order to focus conscientiously on the measures adopted in the upcoming years\(^89\).

Additionally, the Two Pack also monitors government debt developments, since it has more immediate impact than implicit liabilities and constitutes the best indicator of fiscal stability. Governments are obliged to share debt issuance plans with the Commission and the Eurogroup on an ex-ante basis to achieve an improvement in transparency. It seems likely that these plans give rise to a better understanding of the short-term debt dynamics of the member states, of which the debt level offers only an incomplete picture\(^90\).

The second regulation on the strengthening of economic and budgetary surveillance contains a number of precisely defined goals. First, member states experiencing severe financial difficulties or receiving financial assistance fall under a new form of surveillance. A member state subject to enhanced surveillance is obliged to take countermeasures solving the sources of its difficulties. Second, the regulation ensures that the Union’s multilateral surveillance framework is consistent with possible policy conditions, which might occur because of financial assistance granted outside the Union’s Treaty framework. Third, until member states have repaid a

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88 European Commission (2013, p. 84).
89 European Commission (2013, p. 73).
90 European Commission (2013, pp. 84, 87).
minimum of 75% of the granted financial assistance they are subject to the regulation’s post-program surveillance structure\textsuperscript{91}.

The regulation establishes an enhanced surveillance regime in which the Commission is obliged to monitor a member state in case it receives precautionary financial assistance from one or several other member states or the ESM or another relevant institution. It targets the precautionary financial assistance on supporting sound policies and preventing crises. This aim is to be pursued through a possible access to financial assistance before the member states face severe problems with fundraising in the money markets. However, the assistance foresees clear policy conditions depending on the form of assistance. If a member state is subject to enhanced surveillance, the Commission, as well as the ECB, monitor the improvements made on a regular basis. If the two institutions hold the opinion that the member state has to implement further measures because otherwise the member state’s financial situation would have significant negative spillover effects on the financial stability of the Euro area, the Council is allowed to recommend the member state to take further precautionary measures or to prepare a macro-economic adjustment program\textsuperscript{92}.

Taken all together, the Two Pack has, on the one hand, introduced a continuous process, which analyzes national fiscal policies and equips the European Union with instruments to act when Euro area countries are contrary to their European budgetary obligations. On the other hand, it offers countries the best chance to make the right policy choices by focusing on national institutions and processes. Furthermore, it improved the monitoring of member states in the process of correcting their excessive deficits. The reform recognized the importance of having information on both the current economic situation and the actions taken to adjust the present excessive deficit since most of the EDPs span a number of years\textsuperscript{93}.

In completing the SGP, the Two Pack is a step in the right direction, towards improving budgetary surveillance and integration in EMU. It builds on the requirements made in the SGP-Directive 2011/85/EU by moving away from minimal

\textsuperscript{91} REG 472/2013/EU (2013, Art 2, 14).
\textsuperscript{92} REG 472/2013/EU (2013, Art 2, 3). European Commission (2013, p. 89ff.).
\textsuperscript{93} European Commission (2013, pp. 3, 73).
requirements for national budgetary policies to much stronger provisions for the member states in order to avoid free riding and non-cooperative behavior\textsuperscript{94}.

\textsuperscript{94} European Commission (2013, p. 92).
3. Germany’s Fiscal Framework

3.1. Legal Bases, Financial Relations between the Bund and Länder

Examining the fiscal policy structure of Germany and its subnational governments is an important area of research with regard to EMU. The Maastricht Treaty on Monetary Union established rules for limits on both debts and deficits of the participating countries. After the introduction of the Euro, member states still have to follow these rules and countries that do not obey them will be subject to sanctions mentioned in chapter 2. Although the German states have no power to set tax rates or influence the distribution of tax revenues, they manage their fiscal policies independently. The Länder can only jointly influence tax policy, for example by boosting economic performance, but none of them can change the existing taxation system individually.\(^{95}\) With these government structures, sticking to the Maastricht rules is hard to achieve, in case states do not obey the rules and follow appropriate fiscal policy. An institution that plays a key role in all this, the Stability Council, aims to achieve consolidation and cooperative as well as coordinated behavior between the different levels of government concerning finance policies and deficit spending. Analyzing Germany’s fiscal framework and fiscal policies of the independent Länder is consequently an important issue in general because the Länder can threaten meeting the Maastricht rules.\(^{96}\) Examining the German fiscal framework is also important to understand Germany’s position towards European fiscal policy reforms as its system created an unsustainable fiscal performance in certain Länder.

The Federal Republic of Germany has a political system with a strong federal structure that consists of three levels of government, namely federal government (Bund), state/countries (Länder) and local. Thus, it is a federal state consisting of one federal government and sixteen member states, each with its own independent, albeit restrained, state power. A feature of this federal system is, therefore, that both the Bund and the Länder have their own state power and can thus pass legislation.\(^{97}\) Germany’s Basic Law (GG) specifies responsibilities of each level. Before Germany reunited in 1990 there were 11 Länder belonging to the former West Germany and

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\(^{95}\) Potrafke and Reischmann (2015, p. 980).

\(^{96}\) Seitz (2000, p. 185).

\(^{97}\) Deutscher Bundestag (2017, online).
five Länder were in the former East German part. Three of the Länder are so-called city-states (Stadtstaaten) which are in fact large cities and therefore do not have fiscal independent communities. All the other Länder fall under the classification of non-city-states (Flächenländer).

Based on this fact, Germany’s fiscal framework slightly differs from that of the European Union. Similar to the Union’s construct, the Länder are responsible for the exercise and fulfillment of government powers, insofar as the Basic Law does not apply or permit any other regulation. Additionally, the Länder have the right to legislate as regulated in Art 70(1) of the Basic Law. Provisions set out on exclusive and competing legislation in the Basic Law govern the division of jurisdiction between the Bund and the Länder. The Bund may only take over state powers, carry out tasks or legislate if expressly permitted by the Basic Law. In fact, most legislatures are in the hands of the Bund. As in the European Union, the principle of subsidiarity is the guideline for the allocation of responsibilities. Accordingly, decisions should be made as decentral as possible, at a local level and by the people directly affected. Superordinate government levels only intervene if the lower level is not able to complete the given task on its own.

According to Article 104a, in principle, each state level has to finance its own tasks. The federal government may only finance tasks for which it has an explicit administrative competence laid down in the Basic Law. The principle of this strict separation of tasks, however, also provides exceptions. The federal government may help finance country tasks due to its national and collective responsibility. The Basic Law prevents the Bund from fully financing the measures concerned. It can only cover a co-financing proportion, in order to support the countries adequately. According to Article 104b, the federal government may grant funding to the countries whenever it is necessary to prevent a disturbance of the overall economic balance, to compensate for different economic power or to promote economic growth. The second sentence of Article 104b, comparable with Art 122 TFEU, allows the Bund to

\[98\] GG (2017, Art 70(2)).

\[99\] Bundesfinanzministerium (2017b, p. 1).
grant financial help without legislative powers should a situation arise which is beyond the control of the State\textsuperscript{100}.

The financial reform of 1969 constitutes the basis of the current financial framework. Its fundamentals have remained unchanged since the latest reform in 2017, but Germany has obviously not. This lead to severe consequences and fundamental problems. The legal basis of the Financial Equalization Act (Finanzausgleichsgesetz) and the so-called Parameter Law (Maßstäbegesetz) form the basis of the financial compensation system of the Federal Republic of Germany. Article 106 of the Basic Law governs the distribution of tax revenues, also called vertical financial compensation. The vertical financial compensation takes place between either the federal government and the Länder or Länder and municipalities. The horizontal financial compensation between the Länder is set out in Article 107. Article 109 and 115 define the “Golden Rule”, which can be regarded as a debt brake. Articles 109 to 114 specify the rules for the yearly budgetary plans of the Länder. Additionally, the Stability Council Law (Stabilitätsratsgesetz) regulates the responsibilities of the German Stability Council.

As mentioned above, after the German reunification, from 1990 onwards five other federal states fell within the scope of the Financial Equalization Act. However, due to their weak economic performance, these were not part of the financial compensation until 1995. Up to this period, the Eastern Länder received assistance from the German Unity Fund. For overcoming the differences caused by the past division, two Solidarity Pacts (Solidaritätspakt I and II) allocated special funds, so-called supplementary federal grants (Bundesergänzungszuweisungen), to the East German federal states for the two periods, lasting from 1995-2004 and 2004-2019\textsuperscript{101}.

Since the federal states continue to differ noticeably in their economic performance, one can distinguish between donor and recipient countries. The five East German Länder have still not recovered from their division and consequently fall into the category of recipient countries. In addition, also Bremen, Hamburg, North Rhine-Westphalia, Niedersachsen, Rhineland, Saarland, Schleswig-Holstein, Thuringia are net recipients. As a result, only Bavaria, Hesse and Baden-Württemberg constitute

\textsuperscript{100} GG (2017, Art 104 a,b).
\textsuperscript{101} Seitz (2000, p. 189).
donor countries\textsuperscript{102}. However, Hamburg has recently been a special case, as it was a donor country until 2015. The same applies to North Rhine-Westphalia, which fell under the category of donor countries until 2009\textsuperscript{103}.

Due to ever more frequent complaints to adapt the financial framework from the donor countries, in June 2017 the German Bundesrat and the Federal Council of Germany agreed on substantially reforming the financial relations between Bund and Länder. In consequence of a new regulation for Bremen and Thuringia, which receive fixed federal restructuring aid from 2020 onwards, even the Basic Law has to be changed. The reform eliminates the horizontal financial compensation, on the basis of which the federal states divide their tax revenues among themselves. In the future, reducing differences in financial capacities will happen solely through the distribution of sales tax revenues, called “compensation of financial capacity” and with the federal government paying large sums to the Länder in order to reduce the financial burden on net contributors as from 2020\textsuperscript{104}. This change should also secure that Länder are able to adhere to the debt brake.

This theoretical chapter presents extensively the fiscal framework of Germany, in consideration of the last reform of the interdisciplinary cooperation between the federal government and the states.

3.2. Fiscal Equalization

Besides the fact that Germany is a federal state and not a union, Germany’s fiscal policy system differs mainly from that of the EU by having a uniform tax system. The fact that Germany has a financial equalization system can be stated as yet another essential difference. Even if the Union has funds for cohesion, structural policy and research policy to provide financial assistance to the weaker countries, Germany’s financial compensation aims to appropriately compensate for fiscal differences between the Länder to ensure that all state levels, up to the municipalities, are able to meet and finance their assigned tasks. Furthermore, the Basic Law requests

\textsuperscript{102} Bundesfinanzministerium (2016, online).
\textsuperscript{103} Bundesfinanzministerium (2016, online).
\textsuperscript{104} Bundesgesetzblatt (2017, p. 3122ff.).
uniformity of living conditions across the regions\textsuperscript{105}. The purpose of the horizontal compensation is to correct the results of the primary tax distribution among the countries, at the same time it also definitely strengthens the shared commitment to one another\textsuperscript{106}.

Legal rules regulate the redistribution of several particular tax revenues between the states and the federal government. The procedural regulations taken during this multi-stage fiscal equalization consist of four stages, divided into two sub-systems, which this chapter describes in detail.

First, the system distributes the entire tax revenue through the vertical distribution to the two levels of government, the federal government and all the Länder. The local authorities receive a supplementary grant of revenue. This is followed by the horizontal distribution where the total Länder portion of tax revenue is assigned among the various Länder. The financial equalization between poorer areas and richer areas constitutes the third step. In the last step, the “poorest” Länder, those with the smallest financial capacity, receive supplementary federal grants (Bundesergänzungszuweisungen, SFG) from the federal government\textsuperscript{107}.

Explained in more detail, stage one splits the income tax, the value-added tax (VAT), to which the local authorities are entitled to a certain extent and are therefore referred to as joint taxes, as well as the corporation tax between the Bund and the Länder as a whole. With regard to their financial importance, joint taxes are of the highest. Their total revenue accounts for more than two-thirds of the total tax revenues\textsuperscript{108}. Furthermore, the Bund receives revenues from the federal taxes, such as excise taxes, as a whole. The Länder receive the whole revenue from Länder taxes, including the inheritance tax or most types of transaction taxes. The local authorities are entitled to receive the revenue from trade tax, real property tax, and the local excise taxes\textsuperscript{109}.

\textsuperscript{105} GG (2017, Art 106 (2)).
\textsuperscript{106} Bundesfinanzministerium (2017c, online).
\textsuperscript{107} Bundesfinanzministerium (2017c, online). Bundesfinanzministerium (2017f, online).
\textsuperscript{108} Bundesfinanzministerium (2017b, p. 6).
\textsuperscript{109} Bundesfinanzministerium (2017f, online).
This vertical financial equalization, constituting the first sub-system, redistributes several tax revenues between the different levels of government. It does not regulate the distribution of the share of the tax revenue belonging to the Länder. This happens in the second stage, the horizontal distribution of tax revenue, where the tax revenue belonging to the Länder as a whole is spread among them. Apart from receiving the VAT, the principle of local revenue entitles the states to receive the tax revenue, which the revenue authorities collect within their borders. However, the VAT is spread according to the population share. The first equalization step distributes 75% of the state’s share of the VAT among the states. The remaining 25% of the VAT revenue of the Länder is used as a supplementary portion to fill 92% of the deficit in the Länder whose tax revenue from the income tax, the corporation tax as well as the Land taxes per capita is less than 92% of the national average. In the case of VAT revenues that are not sufficient to reach the 92% target, the target will be reduced 110.

The horizontal distribution of tax revenue partially closes the gap between fiscally weak states’ per capita tax revenues and the national average. As the difference to average is compensated, the exact amount of the supplementary portion depends on the amount by which the per capita tax revenue of the Land concerned falls below the national average. The VAT supplementary portion calculation, legally regulated by Art 2 of the Fiscal Equalization Act, uses a linear-progressive-topping-up schedule and has already an equalizing effect across the Länder 111.

The third phase, marking the second sub-system, constitutes the financial equalization procedure among the states, also known as the horizontal financial equalization system, as it affects only the Länder. The starting point for this stage is a very complex calculation of the financial capacity per inhabitant of the various Länder. The financial capacity of a state derives from all types of its Länder and local authority tax revenues as well as half of the tax revenues of the local communities in that Land 112. The latter is also taken into account since the Länder are responsible for providing their local authorities with appropriate financial resources. Länder with financially strong local authorities are then required to spend less of their own

112 Jeffery (2003, p. 25).
finances on the financial resources of their local authorities than Länder whose local authorities are financially weak\(^{113}\). As financial strength and financial requirements are compared for each country, a country is obliged to compensate and has to pay contributions if its financial capacity exceeds financial requirements. In the opposite case, it receives a financial allocation, as regulated by Art 10 Fiscal Equalization Act. In 2016, only three German states were net contributors, all the others were net recipients, with the former Eastern Länder still receiving the most\(^{114}\).

In general, the horizontal financial equalization assumes that the financial requirements per inhabitant amount the same in all the Länder. However, this assumption is not applicable in the case of the three city-states Berlin, Bremen, and Hamburg, which are simultaneously both local authorities and states. As a result, their financial requirements per inhabitant are much higher because these Länder have to carry out those businesses that usually communes take over, as they do not have fiscally independent municipalities\(^{115}\). For the purpose of a fair equalization system, their number of inhabitants is increased hypothetically by 35%. The higher financial requirement per inhabitant also applies to the three sparsely populated Länder, Brandenburg, Mecklenburg-Western Pomeranian and Saxony-Anhalt, which a slight increase in their number of inhabitants compensates\(^{116}\). Following these adjustments, fiscal capacities can be compared, and revenues shifted from parts with higher tax revenues to parts with lower tax revenues.

The conduction of the financial equalization among the Länder further reduces differences in the levels of their financial resources. A fiscally weak Land with a financial capacity per capita of 70% or 90% of the average before financial equalization has between 91% or 96% of the average once the financial equalization system has been applied. In the case of the financially strong countries, the financial surpluses are subject to a progressive tariff. A fiscally strong Land with 110% or 120% of the average financial capacity per inhabitant before equalization has between 104 % and 106.5 % afterwards\(^{117}\). However, differences in the financial

\(^{113}\) Seitz (2000, p. 188).
\(^{114}\) Bundesfinanzministerium (2016, online).
\(^{115}\) Seitz (1999, p. 2).
\(^{116}\) FAG (2001, Art 9).
\(^{117}\) Baretti et al. (2001, p. 39).
strength remain between the countries even after the fiscal equalization between the Länder. It also does not change the ranking of the countries with regard to their financial strength\textsuperscript{118}.

The last two steps described concern only the Länder. The Bund does not take part in these fiscal equalization procedures and the Federal Ministry of Finance takes up the role of a clearing agency. In addition, East-German states were not part of the horizontal equalization and participated only partly in the vertical equalization until 1995\textsuperscript{119}.

Finally, as the last step, the federal government pays supplementary federal grants to poor Länder in order to complement financial equalization among the Länder. These grants are funds without earmarking and serve to finally compensate for the differences that still exist after the third step. To be precise, these federal transfers are actually not a central part of the fiscal equalization scheme but play an important role since in 2016 the Bund paid SFG amounting €9.9 billion\textsuperscript{120}. One can distinguish between general supplementary federal grants (GSFG) and supplementary federal grants for special needs\textsuperscript{121}. The latter are asymmetrical vertical transfers to parts with lower tax revenue with the intention to achieve political and economic goals instead of additional equalization\textsuperscript{122}.

In the context of granting general supplementary federal grants, the Bund further reduces the gap between the average financial capacity per inhabitant and that of poor Länder, which remains after the horizontal financial equalization, by 90%. Länder whose financial capacity per inhabitant after the horizontal financial equalization is still less than 99.5% of the national average receive GSFG. As a result, each financially weak country has a financial capacity of at least 99.5% of the average afterwards\textsuperscript{123}. These GSFG are an additional element of the horizontal

\textsuperscript{118} Bundesfinanzministerium (2017b, online).
\textsuperscript{119} Seitz (1999, p. 7).
\textsuperscript{120} Bundesfinanzministerium (2017b, p. 9).
\textsuperscript{121} FAG (2001, Art 11).
\textsuperscript{122} Seitz (1999, p. 8).
\textsuperscript{123} Baretti et al. (2001, p. 39).
equalization system and considered as a strong commitment ensuring the assumed uniformity of countrywide living conditions\textsuperscript{124}.

Supplementary federal grants for special needs compensate individual poor Länder, especially the five new states in the East of Germany, for special burdens they have to bear. Until 2019, those five Länder and Berlin receive in line with the Solidarity Pact II (Solidaritätspakt II) supplementary federal grants for special needs of around €105 billion. The grants ensure to strengthen the building of new infrastructure, which is still comparatively underdeveloped because of the partitioning of Germany, and to reimburse for the above-mentioned disproportionately weak financial capacity of local authorities\textsuperscript{125}.

Moreover, in 2015 the eastern German Länder received special-need supplementary federal grants amounting to a total of €777 million, to pay compensation for the special burdens they had to face because of structural unemployment and the disproportionately high burdens resulting from the combination of the former unemployment assistance and social assistance. Additionally, small Länder with low tax revenues receive special-need supplementary grants, amounting to around € 517 million annually, in order to pay off their administrative costs, which are above the national average\textsuperscript{126}.

Nevertheless, countries do not receive GSFG automatically. Every five years Bund and Länder examine whether the preconditions for awarding these types of special needs supplementary federal grants still exist\textsuperscript{127}.

Overall, the existing redistribution mechanisms of financial compensation have a huge equalization effect concerning the differences in financial capacities among the sixteen Länder and are indeed of substantial significance. Together the different steps of equalization cause a major redistribution of resources\textsuperscript{128}. However, Germany’s fiscal equalization causes numerous problems. On the one hand, it produces rather little incentives to run a proper economic policy since states that run

\textsuperscript{124} Jeffery (2003, p. 26).
\textsuperscript{125} FAG (2001, Art 11).
\textsuperscript{126} Bundesfinanzministerium (2017f, online).
\textsuperscript{127} FAG (2001, Art 11(4)).
\textsuperscript{128} Baretti et al. (2001, p. 39).
a sound fiscal policy, which leads to an increase in the tax base, have to pay a considerable share of this to revenue weak states. On the other hand, it led to moral hazard as states did not obey the rules. As stated previously, although the fiscal equalization system reduces the level of differences in financial resources, it does not really change the ranking of the fiscal powers. On the contrary, the receiving of numerous supplementary federal transfers dramatically changes fiscal powers. As a result, fiscally weak states end up as being financially richer than the fiscally strong counterparts. Per capita revenues of the poorer Länder can exceed per capita revenues of richer Länder after all transfer payments in the fiscal equalization system and supplementary transfers from the Bund to the fiscally weak countries\textsuperscript{129}. Furthermore, recipient countries rely on financial assistance from the donor countries and do rather little to run sustainable economic policies.

United Germany is economically heterogeneous. However, as the East German Länder still have not recovered from the German division, one can make an East-West distinction concerning the dramatic differences between the states in the former West Germany and the states in the former East Germany. In 1997, only about 10% of the total revenue of the West German states are transfers from the Bund but about 36% in East German Länder. Additionally, up to 4% of the West German Länder’s revenue is distributed to the East German Länder whereas 6.7% of the East German state’s total revenue comes from West German states. There are also strong differences in tax financing of local governments between the two parts\textsuperscript{130}. Hence, the West German Länder face huge burdens and insisted on reforming the whole system. Bearing all this in mind, one may have a better understanding why German parties insist on strict rules and sanctions for disobedience.

\textsuperscript{130} Seitz (1999, p. 5f.).
3.3. Debt Brake

Stable public-sector budgets build the basis for sustainable growth. They strengthen not only the trust of citizens and companies in a sustainable economic development but are also a credible indicator for investors. This leads to an increase in consumption, investment and a decrease in interest rates. A stable public-sector budget thus benefits all citizens in the form of higher growth, higher employment, and rising wages. In order to ensure this, Germany and the other EU member states have agreed to strict fiscal regulations. At the European level, the Maastricht criteria with a government budget deficit limit of 3% of GDP as well as a government debt-to-GDP-ratio, which must not exceed 60% and the fiscal contract for stability with an allowed maximum in deficit of 0.5% of GDP, ensure the desired sustainable growth developments. As Germany’s fiscal equalization system leads to several wrong incentives for the Länder, in 2009 the Federalism Commission agreed on the establishment of the debt brake. Therefore, at the national level, the Bund commits to the debt brake with a new-debt-limit of 0.35% of GDP to reduce government debt levels. However, as the Länder tended to break the rules in the past and further indebted themselves to finance their budgetary deficits, net borrowing is completely prohibited from 2020 onwards, with exceptions during natural catastrophes or severe recessions.

In January 2011 the new debt rule, which the Federalism Commission II reformed, came into effect. Enshrined in Article 109(3) of the Basic Law the debt brake requires the Bund and the Länder to balance their budget without any income from loans. However, resulting from their federal budgetary autonomy, the Länder themselves decide how they implement this Article. Nevertheless, they are still obliged to draw up their budgets in such a way that they meet the consolidation target of the zero-new-borrowing (Nullneuverschuldung). Stricter conditions apply to the countries of Berlin, Bremen, Saarland, Saxony-Anhalt, and Schleswig-Holstein, which receive consolidation assistance. Since 2011, these countries have been obliged to approach progressively the line of zero-new-borrowing, which will be in force from 2020 onwards. Should one of these countries exceed the annual limits of the structural deficit, it loses, pursuant to Art 143d(2) of the Basic Law, its claim of consolidation assistance.

\[131\] Brügelmann and Schäfer (2011, p. 11).
payments\textsuperscript{132}. Clearly, this new regulation should lead to sound budgetary management and reduce the debt burdens of German states as well as moral hazard.

According to Article 115 of the Basic Law, which clarifies the federal government responsibilities more precisely, this means that a limitation of structural net borrowing to a maximum of 0.35\% in relation to the nominal GDP applies to the Bund. In contrast, the Länder have to draw up budgetary plans without any borrowing. What follows logically is that the debt brake aims at achieving the objective of the continuous process towards the strategic goal of having a long-term sustainability of the budgets of the federal government and the Länder. Apart from this, the debt brake also ensures the financial scope for the fulfillment of government tasks\textsuperscript{133}.

In 2016 the debt brake with a maximum permissible structural new borrowing of 0.35\% of GDP was applied for the first time. The federal government already adhered to this limit in 2012. Since 2014 the federal government led by Angela Merkel has been able to balance its budget without new debts\textsuperscript{134}. Since 1969, no other government has managed that\textsuperscript{135}. In order to analyze obedience with the basic rule for limiting new borrowing the actual net borrowing and the maximum allowed net borrowing are compared. The maximum permissible structural net borrowing of 0.35\% GDP, expressing the upper limit of new debt, amounted to €10.2 billion in 2016. Calculations for the year 2016 concluded that the Bundeshaushalt finished its balance sheet with a “black zero”. The actual net borrowing (-€1.0 billion), combined with the economic component (-€0.4 billion) and the balance of financial transactions (+€0.6 billion) together resulted in a structural net borrowing of -€0.8 billion, representing a structural surplus of €0.8 billion, or 0.03\% of nominal GDP. Consequently, the Bundeshaushalt finished with a structurally balanced budget in 2016 and it clearly complied with the maximum amount of permissible new borrowing\textsuperscript{136}.

\textsuperscript{132} GG (2017, Art 143d(2)). Bundeszentrale für politische Bildung (2012, online).
\textsuperscript{133} GG (2017, Art 115).
\textsuperscript{134} Bundesfinanzministerium (2017b, p. 11).
\textsuperscript{135} CDU/CSU (2017, p. 31).
\textsuperscript{136} Bundesfinanzministerium (2017a, online).
From 1 January 2020 onwards, the new borrowing ban introduced under Art 109 of the Basic Law will apply directly and may displace different constitutional rules of individual Länder. Although the Länder do not have to incorporate the debt brake in their state constitutions, Schleswig-Holstein, Hesse, Mecklenburg-Western Pomerania and Rhineland-Palatinate have done this already. This willingness does not only reinforce the goal of maintaining sustainable fiscal policies in the future, but it also enables the debt brake’s justiciability in front of the National Constitutional Court\(^\text{137}\).

The aim of balancing the households of Bund and Länder without taking out loans is based on the medium-term objective of the Stability and Growth Pact, which demands a structurally balanced budget\(^\text{138}\).

### 3.4. Stability Council

As previously mentioned in the introduction of this chapter, according to the federal state structure, the federal government and the countries are independent in their financial management. However, several Länder face huge financial difficulties. In 2009 the German Bundestag and Federal Council agreed on the establishment of a German Stability Council, replacing the Financial Planning Council. Consequently, it is a joint body of the federal government and the Länder with the aim of recognizing and avoiding budgetary emergencies at an early stage. Its legal basis is set out in Article 109a of the Basic Law as well as in section 3 of the Stability Council Act (StabiRatG). The Stability Council includes the Finance Ministers of the federal government and states as well as the Federal Ministers of Economics. Together, the Federal Minister of Finance and the chair of the Länder Finance Minister Conference co-chair the meetings of the Stability Council, which take place, according to Art 1(3) of the Stability Council Act, at least twice a year\(^\text{139}\).

\(^{137}\) Bundeszentrale für politische Bildung (2012, online).

\(^{138}\) Bundesfinanzministerium (2015, p. 22).

\(^{139}\) StabiRatG (2008, Art 1(3)).
The Stability Council pursues several objectives with the monitoring of the budgets of the Bund and the individual Länder, with the timely recognition of budgetary emergency situations, as the most important.

For this monitoring purpose, a surveillance system similar to the European Semester was created. Consequently, the Stability Council’s surveillance functions can be compared with that of the European Commission. Each regional authority is obliged to submit an annual stability report to the Stability Council by mid-October, including specific indicators on the current budgetary situation and financial planning, which are then used to assess the budgetary situation. Furthermore, information on compliance with the constitutional limits on borrowing as set out in Art 109 and 115 of the Basic Law and a forecast of medium-term budgetary developments based on uniform rules and assumptions shall be provided\textsuperscript{140}.

The stability reports constitute the basis for the consultation meeting in the autumn session of the Stability Council. The deadline corresponds with the annual "budgetary cycle" in Germany. After the Cabinets of the Confederation and most Länder have adopted their decisions on budgetary drafts and medium-term financial planning during the summer months, the Council is holding its autumn meeting. Soon afterward, the respective parliaments adopt their defined budget plans\textsuperscript{141}. Following Article 51 subsection (1) of the Budgetary Principles Act, the Stability Council has to consider the overall economic and fiscal conditions soon after the drafting of the Bund, Länder and local government budgetary and financial plans. This ensures that the Stability Council considers compliance with the provisions of the EU Stability and Growth Pact as well as the obligation to respect the need of following appropriate fiscal policies\textsuperscript{142}. The intention is to coordinate budgetary and financial planning among the various levels of government and the obedience of budgetary discipline within the framework of the European Economic and Monetary Union\textsuperscript{143}.

In accordance with Section 4 of the Stability Council Act, the Stability Council decides whether a more detailed financial assessment of a local authority is necessary. If it

\textsuperscript{140} StabiRatG (2008, Art 3(2)).
\textsuperscript{141} Stabilitätsrat (2017, online).
\textsuperscript{142} Stabilitätsrat (2017, online). StabiRatG (2008, Art 51).
\textsuperscript{143} HGrG (2017, Art 51).
concludes that the indicators or forecasts point to the risk of a budgetary emergency, it initiates a comprehensive review of the affected budget as laid down in Art 4 of the Stability Council Act. Should this review actually determine that a level of government is facing a threat of a budgetary emergency, the Council may agree on a rehabilitation program with the local authorities concerned to counteract the possible threats through redevelopment procedures. Initially, the local authority submits a proposal for its rehabilitation program, which the Evaluation Committee assesses and then agrees on the details with the local authority. Afterwards, the Committee submits a proposal for decision to the Stability Council. The Stability Council monitors the compliance with these budget adjustment programs, lasting over a period of five years, and the implementation of the measures agreed to achieve the right path on an ongoing basis. In addition, the local authority reports to the Stability Council on a half-yearly basis. If figures deviate from the agreed measures, the Council, together with the local authority, examines which additional measures are required to be back on track.  

Apart from its budgetary surveillance for the avoidance of budgetary emergencies, the Council also monitors in line with Art 2(2) of the Consolidation Assistance Act (Konsolidierungshilfengesetz) the accomplishment of requirements to receive further consolidation assistance concerning the Länder Berlin, Bremen, Saarland, Saxony-Anhalt, and Schleswig-Holstein until 2019. In order to comply with the new debt rule which comes into force in 2020, these five Länder are receiving consolidation assistance of €800 million annually from 2011 to 2019. In line with Art 143(2) of the Basic Law, the respective amounts per year are €300 million for Bremen, €260 million for Saarland and €80 million each for Berlin, Saxony-Anhalt, and Schleswig-Holstein. The payment of the assistance depends on the fulfillment of steps towards consolidation. The five countries will have to reduce their fiscal deficit they had in 2010 gradually by 2020.  

144 StabiRatG (2008, Art 4, Art 5).
145 GG (2017, Art 143d(2)).
146 Stabilitätsrat (2017, online). GG (2017, Art 143d(2)).

51
Besides that, the Council analyzes compliance with EU requirements for budgetary discipline as well as the progress reports “Building East” (Aufbau Ost) and coordinates the budgetary and financial planning.

With the collaboration of the debt brake, the Stability Council contributes to ensure the right path towards a stable fiscal development in Germany, as doubtlessly the Länder need support for this, and it also ensures ongoing fulfillment of the Maastricht criteria\textsuperscript{147}.

To sum up, the 2017 agreement of reforming the financial relationship between the Bund and the Länder is a respectable compromise, which is made possible by the active commitment of all parties involved. The reform creates long-term planning security for the states. In addition, the reform contains vital elements that improve the structures of the federal state as a whole. Despite all these conducted reforms, important challenges remain at national level. The first challenge is whether the debt brake can achieve a culture of creating sustainable financial policies by all parties involved, not only at national but also at European level. The second challenge might be whether and to what extent policy makers will disobey the debt brake and thus damage the credibility of the fiscal rules depends mostly on the influence of the Stability Council and its sanctions. Thirdly, and probably most importantly, it is still the responsibility of the Bund and Länder to commit to their obligations in order to guarantee a stable public-sector budget and thus sustainable growth\textsuperscript{148}.

Nevertheless, the federal government and the Länder must continue to decide jointly, as it is also the case for European member states. Only this way can the federal structures be further developed and Germany strengthened\textsuperscript{149}.

\begin{flushright}
\textsuperscript{147} Bundesfinanzministerium (2017d, online).
\textsuperscript{148} Bundeszentrale für politische Bildung (2012, online).
\textsuperscript{149} Bundesfinanzministerium (2017b, p. 13).
\end{flushright}
4. German Parties
Since 2005, Angela Merkel (CDU) is the incumbent chancellor of Germany. She has been twice German Chancellor of the grand coalition consisting of CDU/CSU and the Social Democratic Party and from 2009-2013 of a “Black and Yellow” coalition consisting of CDU/CSU and the Free Democrats. Until the formation of a new government, she and her Cabinet will continue serving their offices in a caretaker function.

Shortly after the federal elections of 2017 in Germany, the center-left Social Democrats (SPD) announced to go into opposition and ruled out another grand coalition. Despite their high losses, CSU and CDU remained strong and won first place. The SPD became the second strongest party, but the Alternative for Germany (AfD), right-wing populist motivated, followed third place. For this reason, the SPD took the decision to join the opposition in Parliament in order to hinder the AfD from filling the prestigious position of opposition leader. Merkel, on the other hand, declared herself against making a deal with the Alternative for Germany, or the far-left Die Linke\textsuperscript{150}. A so-called “Jamaican coalition” of CDU/CSU, FDP and the Greens was the only option to a governing majority and hence was a possible political future. However, the four parties are miles apart on topics like Europe, finance policies and many others. The failure of exploratory talks might result in Merkel having to convince the SPD to rethink its refusal to join a new government. If that were to fail too, a minority government of CDU and one of the negotiation parties may be an option. The other option is that Germany would have to hold new elections, which would probably weaken the support for the Christian Democrats and further strengthen the radical parties. Moreover, this means a further delay in the formation of a government and probably a slowdown in decisions made at the European level. Shortly after the coalition talks failed, the SPD dropped its refusal to form another grand coalition to break the political deadlock in Germany. This section concisely introduces the possible coalition partners of a Jamaica-coalition.

\textsuperscript{150} Prantl (2017, online).
4.1. **CDU**

The Christian Democratic Union of Germany is represented in all German countries except Bavaria. It is considered as a people’s party in the middle and addresses its political principles to people from all social levels. The party has consistently been a political fraction with its Bavarian sister party CSU in the German Bundestag since 1949 as “the Union”. The CDU-led federal government under Angela Merkel calls for a European transformation which supports the community method and further steps towards a political union according to federal principles. According to their fundamental program, Germany is only doing well in the long term if Europe is doing well, hence stabilizing the EU is one of their primary goals. Politicians who belong to the CDU see Germany as the anchor of stability in the European Union, but they clearly stand for strict rules and directives\(^\text{151}\).

4.2. **CSU**

The Christian-Social Union in Bavaria participates only in elections which take place in Bavaria. In this federal state, the party has provided the Prime Minister since 1957. Their political orientation can be described as federalist, conservative and EU skeptical. Party members want a stable Europe, also regarding finances and will not support a debt union. The party also advocates a rigorous enforcement of the debt brake and full compliance with the Lisbon Treaty. In its 2017 Bundestag election campaign, the CSU demanded a "better Europe" as well as that the member states retain their financial autonomy and clearly expressed itself against further financial transfers in the Eurozone\(^\text{152}\).

4.3. **Alliance 90/The Greens**

The Alliance 90/The Greens, which is the youngest party in the coalition negotiations with its founding in 1993, is politically center-left orientated. The party's guiding principles are ecological, economic and social sustainability, also regarding its European policies. The party considers the European Union as being a great achievement for a responsible and peaceful community of states. However, it is too much of a neoliberal economic actor. In the fight against the Euro and financial crisis,

\(^{151}\) CDU/CSU (2017, p. 5).

\(^{152}\) DPA (2017i, online).
fiscal consolidation is to be supported by stronger financial market regulation and a European debt repayment fund. The Greens attribute an important role to European solidarity, which comes with the greatest benefits for the member states. For them, national egoism is short-sighted and makes it difficult to achieve European objectives. Green members are convinced that Germany and France will once again become the motor of European integration and European cohesion. Consequently, they undoubtedly support Macron’s proposals. For the German policies on the European Union, they defined their aim of curbing Germany’s extremely rigorous budgetary policy.\footnote{Bündnis 90/Die Grünen (2017a, p. 68ff.); Bündnis 90/Die Grünen (2017b, online).}

4.4. FDP

The Free Democratic Party is a liberal party, settled in the middle to right center in the political spectrum. In its fundamental program, the party calls itself an alternative for the impatient middle class. In principle, the FDP is pro-European and believes that deepening the EU is an important issue but has clear red lines. Europe must work together in the field of foreign and security policy, but must also be liberalized. On the one hand, the FDP argues that the crisis was a result of failures of the national states and that therefore stricter rules and surveillance are necessary. On the other hand, proposals such as a debt cut for member states and a European unemployment insurance scheme are not compatible with the FDP’s political position.\footnote{FDP (2017, p. 108f.); FDP (2017, online).}
5. Visions of Two European Presidents

5.1. State of the Union – Juncker’s Speech

On September 13\textsuperscript{th}, 2017, shortly before the Bundestag elections in Germany, Commission President Jean-Claude Juncker presented proposals for the future of the European Union in his speech on the state of the Union. Without a doubt, these proposals will lead to considerable discussions. However, his proposals should initiate political movements of the member states towards deepening the Union. He justified his euphoric proposals with the improving economic situation in Europe. Now is the time, therefore, to catch the political wind and to build a more united, stronger and more democratic Europe, as Europe has always been at its best when the member states acted unitedly\textsuperscript{155}. With a concrete timetable for the next year and a half, which he also transmitted to the heads of state and government, he deepened his urge for reform\textsuperscript{156}.

All his reform proposals should be possible without treaty and structural changes, but they must not be underestimated. He wants to rebuild the currency union and expand it in the next couple of years. He argued in favor of the Euro in all EU member states. He also wants to expand the European banking union. According to him, these measures are necessary for the Euro to unite the Union and not to divide it. For "poorer" countries he proposes an instrument that would prepare them to enter the Eurozone with technical as well as financial aid since they have already committed themselves to the Euro in the Treaty of Maastricht. He also briefly considered the possibility of transforming the European Stability Mechanism (ESM) into a European Monetary Fund. However, he does not consider it as necessary to have a budget for the Eurozone only as long as the EU budget contains a strong Euro area budget line. As a result, when the Commission submits its proposal for the next financial period, this will probably include a budget line for the Eurozone\textsuperscript{157}.

Juncker is also keen on the idea of introducing an “Economic and Finance Minister”. Carrying out this proposal would alter the Commission’s order. Although he did not

\textsuperscript{155} European Commission (2017c, p. 3).
\textsuperscript{156} The Economist (2017, p. 25).
\textsuperscript{157} Barker and Brunsden (2017, online).
want to create a new position with a new apparatus, he would merge the function of the Budgets Commissioner with that of the Economic and Monetary Affairs Commissioner and at the same time occupy the head of the Eurogroup position with the proposed new minister. Clearly, he wants the Commission to maintain its powers. This new minister would be accountable to the European Parliament and coordinate all EU funding instruments as well as manage the EU budget and monitor the member states' budgetary policies. Here, too, the Commission is to maintain policy-making power. Nevertheless, he remained quite vague concerning the real powers of the newly but hypothetically created position. What he means by managing budgets and coordinating funding instruments remains subject to interpretation. Besides that, he proposed to merge his own office, the President of the Commission, with that of the President of the European Council of the member states to create a more efficient and transparent position. Juncker wants to present his ideas for the transformation of the monetary union more precisely in December. Additionally, he has appealed to European leaders to reach an agreement on important issues to make the best use of this window of opportunities.\(^{158}\)

With regards to the Schengen area, he called for the fastest possible inclusion of the Member States Bulgaria and Romania. He also called for a fundamental enlargement of the Union and an expansion of the qualified majority voting.

### 5.2. The Future of the European Union – Macron’s Speech

In his keynote speech on September 26\(^{th}\) on the future of the European Union, also France’s President Emmanuel Macron, along with Juncker, increased the pressure to reform the Union’s architecture. His vision is nothing less than a "new foundation of Europe", as member states should grow together more closely. He, therefore, invited the member states to work together intensively to make the Union more crisis-proof and more effective. "The Europe we know is too slow, too weak, too ineffective," he said in his speech at the Paris University of Sorbonne.\(^{159}\) A fundamental rebuilding is the only way to achieve a more sovereign, more united and democratic Europe.

\(^{158}\) Kafsack and Mussler (2017, online). Barker and Brunsden (2017, online).

\(^{159}\) N.N. (2017a, online).
For the future, Macron mentioned six points, which are of utmost importance to him. He calls for the deepening of the Eurozone with its own budget as well as its own democratically legitimate institutions, such as a Eurozone Parliament, and a Euro Finance Minister. He also wants to strengthen the common security and defense policy. He calls for a joint asylum procedure and wants to introduce a transaction tax to finance a development assistance program. His vision describes Europe as a transnational example of a globally respected Internet power that induces an energy revolution.160

Macron is in favor of transferring national fiscal sovereignty to the Union. However, in his speech he remained quite vague concerning his ideas for restructuring the Eurozone. Doubtlessly, there will be heated debates about how a Euro budget should be equipped, what competencies his proposed Euro Finance Minister should have or how a Eurozone Parliament should look like and whether it is necessary. Macron suggested the Euro budget could be financed first by higher tax payments from large Internet companies, such as Google, and taxes for climate protection. It is then the duty of the member states to contribute about three to four percent of their state budgets.161

In this context, Macron also proposed a stronger harmonization of tax policies in the EU and a harmonization of company tax between France and Germany. He wants to achieve his vision of Europe becoming an Internet power by taxing Internet companies where they generate revenue and not where they are registered.

Obvious at first sight, the proposals Macron made, unlike those of Juncker, cannot be implemented without a treaty change. He spoke about the unity of the European continent and appealed to countries open to reforms to take the first step in a new direction. By the summer of 2018 he would like to set up a joint reform plan and implement his first ideas within the next upcoming years to catch the wind in Europe’s sails.162

160 Klimm (2017, online).
161 Mühlauer (2017, online).
162 Klimm (2017, online).
6. Empirical Analysis

After Juncker and Macron presented their proposals for further reforms of Europe and the monetary union, eyes all across Europe were on Germany. It was Germany's task to adopt a position on what steps would be possible and to launch a Franco-German initiative. But after the general election, everything turned out differently than previously assumed.

On October 18th, 2017 the first ever four-party coalition talks for a new German federal government began. There have only been two Jamaica coalitions, so called because the black, yellow and green party colors match Jamaica’s flag, in German history, however, both at the state level in Saarland and Schleswig Holstein. During the negotiations for a new federal government consisting of a possible Jamaican coalition, four parties from different political camps with major ideological differences and political views had to find the best possible, although probably hard-to-achieve, compromise. It was certain that there will be a variety of differences but also the will to find common ground for forming a new government. Before the coalition talks had even begun, both the Greens and the FDP had already put their most important topics on the table for discussion. Topics with proposals and points of view that were miles apart. The obstacles to a functioning Jamaica coalition were very clear. The pro-business and economically liberal FDP met the Greens, with big government instincts. The ambitions of the Christian Democrats collided with the pacifism supported by the Greens and besides all these differences, Angela Merkel had to convince the Eurosceptic FDP leader Christian Lindner to support her hopes for a Franco-German cooperation to strengthen the Eurozone\textsuperscript{163}. Bearing this in mind, Juncker and Macron have chosen the timing of their speeches wisely. They hope to fuel public debate and force the Chancellor as well as the other German party leaders to discuss suggested reforms during coalition talks.

Given their diverse interests, the Union, FDP, and Greens had to prove that they were willing to balance these interests. Difficult negotiations on forming the next federal government did not imply that a Jamaica coalition was impossible. The system of democracy can only be strengthened by parties reaching compromises

\textsuperscript{163} N.N. (2017b, online).
and peacefully governing a society. Balancing their different interests was an opportunity to strengthen each other and to agree on compromises in the negotiations instead of stubbornly blocking proposals from the outset. Finding compromises and the will to form a coalition are prerequisites for the trust of German voters and for a strong cooperation with each other as well as political stability. The readiness to compromise is not a weakness but rather necessary for a well-functioning democracy. The coalition agreement would have defined the scope of compromise the next German government is willing to agree on. However, on November 19, eight weeks after the federal elections and four weeks of exploratory talks, head of the Free Democrats Christian Lindner declared what was thought to be impossible considering political circumstances in Germany. Persistence and rigid adherence to certain opinions remained too great on major policy questions. Hence, the political parties involved failed to reach compromises on key questions and were not able to find the needed breakthrough. As a result, he declared coalition talks to be over because according to him “It is better not to govern than to govern wrongly.” If a preliminary agreement had been reached during the exploratory negotiation between the four parties, formal coalition talks would have begun by the end of November to agree on an official program for government. Instead, after the exploratory talks were deemed to have failed, the parties threw accusations at each other. Nonetheless, the other party leaders stated that a deal would have been possible and condemned the FDP for putting an end to exploratory talks.

Christian Linder’s statement has serious consequences for Germany and most of all the CDU. Angela Merkel remains chancellor until a new government can be formed, but she has little maneuverability and her party is in a seriously weakened position. She announced that she regretted the FDP’s decision and that the coalition partners could not find a common solution but that she still strives for stability in Germany. Furthermore, she said that she “will do everything I can to ensure that this country is well managed through these difficult weeks” and that she will discuss with the Federal President Frank-Walter Steinmeier how to proceed. To what extent important European decisions are therefore negatively influenced or slowed down is

164 Portal Liberal (2017, online).
165 Sigmund et al. (2017, online).
166 DPA (2017c, online).
still unclear. It is, however, clear that Angela Merkel must first find a solution for the failed exploratory talks, take important decisions in her own country and that she has also to maintain Germany's political stability.

It was clear from the outset that an agreement between the four parties with ideological differences would be difficult. Yet, the parties could have come to an agreement on European issues and the proposed reform steps, as the media analysis shows that their views on fiscal policy questions are not as far apart as it might first appear and show a certain degree of similarity. The German insistence on stricter rules and surveillance concerning the European Union's fiscal policies is certainly due to the experience and problems which the German fiscal equalization system has revealed. However, also German Länder are now obligated to obey strict rules, see chapter 3.3, and concerning the Bundeshaushalt Angela Merkel urges to stick to a zero deficit target, the so-called black zero. Considering that the fiscal equalization created disincentives and that German states did not pursue a long-term sustainable budget policy, the fear of moral hazard and financial instability can be justified. As can be seen, stability is not only of utmost importance when it comes to the political future of Germany but also regarding Europe's fiscal framework and the Eurozone.

Taking decisions on time-sensitive EU objectives such as reforming the Eurozone will be hard with an influential country like Germany having no government and therefore no mandate. The European summit in December is of immediate concern as it was supposed to advance discussions on strengthening the stability and the economy within the Eurozone. Although Angela Merkel plans to attend the summit regardless of having formed a new German government, other European leaders fear that she will have a constrained room for maneuver and point to significant long-term problems\textsuperscript{167}. If Germany heads for new elections it can be expected that a new government will be formed in spring 2018. This does not only mean a serious delay in having a new German government but also that expectations for progress on European level will be threatened. Eurozone reforms could be endangered by a lengthy formation of government in Berlin\textsuperscript{168}.

\textsuperscript{167} Brunsden et al. (2017, online).
\textsuperscript{168} Brunsden et al. (2017, online).
A media analysis examined the party’s reactions to the reform proposals made by Juncker and Macron, as well as the positions they generally support on the future of the European Union. At the time of research, the formation of a Jamaica coalition seemed to be possible. Therefore, the analysis considered only the four possible coalition parties and which reforms towards rebuilding the European fiscal frameworks would have been possible. As already discussed in chapter 1.4.1., newspaper and magazine articles were examined and categorized in this media analysis with a duration of one and a half months, beginning September 13th, 2017. The analysis revealed five categories that are related to the Eurozone and a possible fiscal policy reform, being further elaborated and discussed in this chapter.

As there was no government at the time of filing the initial version, it is possible that the results of the research could be overtaken due to political changes or compromise solutions and may no longer reflect the current status.

6.1. Eurozone Budget

Emmanuel Macron has not given up his hopes for a united European economic government yet. He argues that states which plan to cooperate more closely together, sooner or later will also have to agree on a common budget. This “natural consequence of closer cooperation”, as Macron stated it, will face many debates in Germany.\(^{169}\) Not only because Germany’s contribution to a Eurozone budget, as it is the largest member, would amount to about 30 percent, but also because critics predict the entry into a European transfer union in which the weaker countries would benefit from the contributions paid in by the better-performing countries.\(^{170}\)

A budget for the Eurozone in which members of the monetary union contribute certain amounts, as proposed by Macron, is probably the most controversially discussed issue among German parties. The Greens, on the one hand, are wise on Europe and want to return the outstretched arm of President Macron and carry Europe forward with a Franco-German impulse to prevent a division of Europe into a

\(^{169}\) Blume et al. (2017, online).

\(^{170}\) Ettel and Zschäpitz (2017, online).
"Euro-exclusive club" and the rest\textsuperscript{171}. Green members said that they support Macron's idea of a Eurozone budget since Eurozone member states should start financing certain future investments together\textsuperscript{172}. Cem Özdemir, Chairman of the Alliance 90/The Greens, admitted that it makes no sense if member states share a common currency but still do not have a common fiscal policy\textsuperscript{173}. For this reason, they are in favor of a future fund, which is anchored in the EU budget and in which all member states may participate. Obviously, such a fund must be subject to certain conditions, which, however, are to be discussed\textsuperscript{174}. Overall, the Greens but also the CDU, in a qualified sense, are willing to spend more money on Europe as they consider it as the biggest achievement to secure peace among the European countries\textsuperscript{175}.

On the other hand, the FDP, whose leader Christian Linder excluded the signing of a Eurozone budget and the establishment of new money pots that curtail the incentives for sound budgetary policies since the beginning of the electoral campaign, is not in favor of spending more money on Europe\textsuperscript{176}. Basically, the FDP is characterized as Europe-friendly but it is not flexible on topics such as a common budget, which is considered as "a clear red line". MEP and Chairman of the FDP-Group in the EP Alexander Graf Lambsdorff said that the problem of the Union is not a lack of money, but a lack of reforms. The primary objective should be to maintain a sound budgetary policy and to tighten up the rules of the SGP. It is important to strengthen member states' own fiscal responsibility. He calls a budget for the Eurozone as a permanent European country-level compensation system, which would reduce the incentive for a solid economic and financial behavior and lead to undesirable consequences\textsuperscript{177}. Instead, the party considers discussing an instrument for investments and unexpected economic shocks, as already indicated by Juncker, more compatible with its political principles. Such a financial instrument could be set up within the EU budget. The FDP has a mostly positive attitude towards reforming the statutes of the

\textsuperscript{171} N.N. (2017c, online).
\textsuperscript{172} Meier (2017a, online).
\textsuperscript{173} Hauteville (2017, online).
\textsuperscript{174} Bündnis 90/Die Grünen (2017a, p. 72).
\textsuperscript{175} Klingst et al. (2017, online).
\textsuperscript{176} DPA (2017a, online).
\textsuperscript{177} Meier (2017b, online).
ESM said Mister Lambsdorff. Yet, it is not clear which changes are to be made in the future, since the details will be discussed during coalition talks at the earliest\textsuperscript{178}. All in all, the FDP believes the Union's competitiveness must be strengthened and that the idea of establishing new instruments aiming at redistribution among states is a step in the wrong direction\textsuperscript{179}.

So far, the CSU has expressed its opinion about a possible Euro budget only very vaguely. The party is afraid that such a budget would introduce more of a redistribution instrument that would not be compatible with their political views. Daniel Caspary, head of the CDU/CSU Group in the European Parliament, expressed skepticism about Macron's proposals, as problems need to be solved before new instruments and institutions are created. He added that he sees no great differences between the positions of the Union and the FDP when it comes to the Eurozone future\textsuperscript{180}. A fact coalition compromises would have depended on.

Angela Merkel already stated long before Macron held his speech that she supports taking further reform steps. She expressed herself in a positive manner for a common Eurozone budget but stressed that the details had to be discussed extensively after the German coalition negotiations. Merkel has not drawn any red lines yet. The union parties support any reforms that seem reasonable to her, she said\textsuperscript{181}. In general, though, the party is currently somewhat divided on European issues as some members of parliament agree with the positions of the FDP and are critical towards future reforms. Other members support the ideas of Macron and are willing to deepen Europe\textsuperscript{182}. Some warned against a Euro budget lacking control over expenditures and suggested to carry out economic reforms before taking further integration steps. Others see a large Euro budget to assist countries in times of financial troubles as economically unnecessary for a stable monetary union\textsuperscript{183}. Countries should make better use of the national automatic stabilizers to absorb shocks. The aim of the MTOs, already mentioned in chapter 2.2., is to build buffers, by sticking to budgetary

\begin{footnotesize}
\begin{enumerate}
\item Meier (2017d, online).
\item FDP (2017, p. 125).
\item Becker (2017, online).
\item Melander and Körkemeier (2017, online).
\item Verhofstadt (2017, online).
\item Brunsden and Khan (2017, online).
\end{enumerate}
\end{footnotesize}
objectives, to absorb shocks if necessary\textsuperscript{184}. Nonetheless, the slogan in the party’s election program "Strengthening Europe is Strengthening Germany" points out that Germany and probably the member states in general benefit from rebuilding certain political frames and indicates a strong willingness to implement European reforms.

In his speech, Macron considered the German government’s critical attitude towards the idea and stated that the goal of creating a Eurozone budget is not a pooling of national debt. Rather, it is about future investments, which require a stronger Union budget, a Euro Minister of Finance and a Eurozone Parliament with autonomous parliamentary supervision. A strong common currency will benefit not only the states that have already introduced the Euro, but also those that will introduce it in the future\textsuperscript{185}.

However, even in some other member states there is currently little support for a separate Eurozone budget should this lead to permanent financial equalization or financial transfers among the participating countries. Thus, the question remains, whether the implementation of this idea is doomed to failure only because of the German government or also due to the refusal of governments of other member states.

6.2. Financial Transfers

The Eurozone was established without having a fiscal transfer mechanism to provide financial assistance to member states that face tense financial situations and adequate resolution tools. The European Central Bank is still prohibited from filling in as a lender of last resort and the proposal for Eurobonds was objected by Germany’s conviction that it would grant most of the liability. However, Germany has been willing to grant rescue packages to Eurozone members that are heavily in debt, albeit under strict conditions\textsuperscript{186}. For a stable Eurozone, it is all the more indispensable that economically stronger states must show solidarity with the weaker performers. That

\textsuperscript{184} Giegold (2017, online). Brunsden (2017, online).

\textsuperscript{185} Meier (2017c, online).

\textsuperscript{186} Skidelsky (2017, online).
leaves the question, which reform steps were the coalition parties willing to take in this direction?

Macron’s proposed solidarity mechanisms, which he sees as the key to a stable European Union, have encountered harsh criticism in Germany. Chancellor Angela Merkel has opposed the idea of establishing a European financial equalization system, as it exists in Germany as well as in France, to provide financial support for weaker countries like Greece. Even during the tedious negotiations for Greece’s rescue packages, Merkel clearly expressed her opposition to any kind of transfer system, that would be equivalent to automatic financial compensation among the Eurozone member states. This would not only lead to false financial incentives from the CDU’s point of view, but the EU also lacks supervisory bodies to monitor such a system. Budgetary discipline in all member states sharing the Euro is important for the stabilization in the EMU. That is precisely the reason why the SGP was complemented by the Fiscal Compact. As the country faces huge problems with its fiscal equalization, the establishment of such a system at European level is a sensitive topic to the parties. Member of the CSU accused Macron of wanting to create a European transfer union and fear a weakening of the SGP. Member states should not be relieved of their duty to bring their budget deficits in line with the European fiscal rules.

The willingness to follow Juncker’s idea and to set up a European Monetary Fund is significantly higher among members of the CDU. A rebuilding of the ESM was already supported by Germany’s former Finance Minister Wolfgang Schäuble and the Chancellor in 2010. In addition, the CDU/CSU government program states that the party is in favor of gradually developing the Eurozone with the new French government, for example with the creation of a European Monetary Fund.

Rebuilding the European Stability Mechanism is the right step for an intergovernmental solution to ensure that fiscal responsibility and fiscal control go

187 FAZ.net (2011, online).
188 CDU (2016, online).
189 Nienaber (2017, online).
190 Schuler (2017, online).
along together, avoiding problems of moral hazard. Since its establishment in 2012, the mechanism has proved its necessity. The ESM is equipped with a well-developed crisis-management system with financial capacities at its disposal to financially assist distressed member states. Since the ESM does not have the mandate to carry out crisis prevention or to reduce risks at an initial stage, the European Monetary Fund should have a stronger role in monitoring country risks in order to identify and reduce them more effectively and as early as possible. The overhauled ESM should then also surveil compliance with the Fiscal Compact requirements and could get a stronger, but neutral, role in monitoring the country’s adherence to the Stability and Growth Pact. However, that role can only be advisory as the complete surveillance of compliance with European fiscal rules and obligations would require an amendment of the Fiscal Compact and the ESM Treaty\textsuperscript{192}. The Christian Democrats are of the opinion that integration measures that involve treaty changes should not be precipitated as they could lead to skepticism\textsuperscript{193}.

Nevertheless, the fund should not establish a permanent financial transfer, as it would go against the ESM core purpose of bailing-out countries facing severe economic threats, but it should be able to lend money to distressed European states and possess more supervisory rights than the ESM\textsuperscript{194}. But also in this debate, the CDU insists on strict adherence to the SGP and the required budgetary discipline. According to Juncker, in December the Commission will present further information on how such a rebuilt ESM could look like and concrete discussions are expected to start next year.

Not only the Union but also the FDP has repeatedly made it clear that it opposes a permanent financial transfer between poor and rich countries in the Eurozone. The refusal of financial transfers is almost a question of identity for the FDP. In its party program, the Free Democratic Party is talking about reducing the borrowing capacity of the ESM and forcing the mechanism to be phased out in the long term\textsuperscript{195}. “The European Stability Mechanism should not be used as a permanent assistance in

\begin{footnotes}
\item[192] Giegold (2017, online).
\item[193] CDU (2016, online).
\item[194] Giegold (2017, online).
\item[195] FDP (2017, p. 124).
\end{footnotes}
financial emergencies, but ESM grants may only be awarded strictly in accordance with the rules laid down for this purpose [...] We reject the interconnection of banks' deposit guarantee schemes in the European area\textsuperscript{196} states the program of the Liberals clearly and unequivocally. Accordingly, rescue packages for weaker EU countries are not to be awarded. The FDP believes that as a result of this the non-assistance clause will be credible again. They see Macron's solidarity mechanisms as an expensive reform proposal for Germany as they fear that, in the end, it is Germany that will face the financial burden\textsuperscript{197}. Instead, the FDP calls for "orderly proceedings for sovereign default", to put an end to previous rescue measures. Such a procedure would no longer save financially distressed countries but would lead to an orderly debt restructuring, if debt levels are not sustainable anymore. The party sees this proposal as a necessary measure to prevent a permanent transfer at the expense of the European taxpayers\textsuperscript{198}. The FPD is quite critical concerning the conversion of the ESM into a currency fund. On the one hand, it would very likely be a redistribution instrument rather than a stability factor. On the other hand, they call for a long-term solution with strict reform requirements for the crisis states in southern Europe.

The FDP is convinced that the Eurozone countries must fulfill their responsibilities towards the Euro on their own, respecting certain rules agreed in the SGP or Fiscal Compact. In this respect, no additional institutions need to be created, but a common political will among states to maintain the stability of the Euro is necessary. As far as the FDP is concerned, the member states cannot break rules designed to ensure stability in the Eurozone without being held accountable for non-compliance and sanctioned\textsuperscript{199}.

Encouraging Europe's community cohesion, as stated in the Green Party Program, means to strengthen the Union where joint actions appear to be necessary and reasonable. The challenges of our time are simply too great for states to solve them on their own. Whoever wants to be part of this globalized world and be respected

\textsuperscript{196} FDP (2017, p. 124).
\textsuperscript{197} DPA (2017d, online).
\textsuperscript{198} Blume et al. (2017, online). FDP (2017, p. 124).
\textsuperscript{199} FDP (2017, p. 126).
needs a strengthened European Union. The Greens are, however, of the opinion that this does not ultimately have to result in a centralist Union which prescribes to the member states what is best to do. In areas such as the collection of European taxes, budgetary and economic policy control or fiscal policy, the Greens consider the transfer of national decision-making powers to the European level as adequate. Nevertheless, any sovereignty transfer must be accompanied by democratic decision-making authority at European level, and enable participation for the member states by democratic principles\textsuperscript{200}.

As budgetary and economic policy management appears to be an adequate concept at EU level, the Greens are also committed to transforming the ESM into a European Monetary Fund, which is controlled by the European Parliament\textsuperscript{201}. However, the party does not support unconditional transfer payments among the member states. In addition, the party advocates a "solidarity-funded investment program for Europe" to ease one-sided austerity policy\textsuperscript{202}.

Regarding the debate on a possible European transfer, it is visible that the problems of the German fiscal equalization have strongly influenced the opinion of the German parties. It can be seen that the equalization system led to wrong incentives and problems that did not strengthen but worsen the different economic performances and financial capacities of the states. These wrong incentives led to unsustainable budgets and forced the federal government to provide bailout transfers to two German Länder, Saarland and Bremen that faced high public debt levels in 1980\textsuperscript{203}. Due to the behavior of the states, further measures, for example, the establishment of the Stability Council, had to be taken to minimize budgetary emergencies or disincentives. It can, therefore, be assumed that the critical attitude and the fear of moral hazard in Germany are based on the visible shortcoming of the German fiscal equalization.

\textsuperscript{200} Bündnis 90/Die Grünen (2017a, p. 71).
\textsuperscript{201} Bündnis 90/Die Grünen (2017a, p. 74).
\textsuperscript{202} Bündnis 90/Die Grünen (2017a, p. 71ff.).
\textsuperscript{203} Seitz (1999, p. 12f.).
6.3. Mutualization of Debt

Concerning a possible collectivization of debts, the CSU and the CDU share the same points of view. In its Bavarian plan, the CSU explicitly opposes additional burdens on German taxpayers, such as the introduction of Eurobonds. European member states must focus on the great challenges in times of globalization together, but the CSU sees more individual competencies, new EU institutions, or a pooling of debts as the wrong path. Instead, the party considers strict budgetary rules and economic structural reforms as essential for the stabilization of the Eurozone. Resolutions made at European level must be obeyed by all member states and non-compliance be sanctioned. Compliance with the SGP’s criteria should be achieved without any compromises. The party calls for a stable Europe, also regarding finances\textsuperscript{204}. Countries that break these rules should be sanctioned but not financially supported by a transfer or debt union. The party demands fiscal self-responsibility and discipline. Germany should not be responsible for the financial problems of other countries but should promote a permanent stabilization of the Eurozone, since Germany’s task is to be a stability anchor in the world\textsuperscript{205}. As mentioned above, the CSU has, however, no objection to a European Monetary Fund as long as it does not create moral hazard or a transfer system.

Likewise, the CDU vehemently rejects a mutualization of national debts in the form of a common European budget or Eurobonds. According to the CDU, to realize the vision of a stable Europe, control and liability must be considered jointly when distributing EU funds. Angela Merkel reiterates this position by saying "I will not support the idea of mutualizing national debts\textsuperscript{206}.” Sharing risks and debt obligations among the member states equal moral hazard to the Christian Democrats. Fiscal mistakes of the past, which happened at national levels, are only repeated once more if debts are mutualized\textsuperscript{207}.

Considering the Liberals’ opinion on a Eurozone budget or a financial equalization at European level, it is no surprise that they also exclude a mutualization of individual

\textsuperscript{204} DPA (2017f, online).
\textsuperscript{205} CSU (2017, p. 27ff.).
\textsuperscript{206} DPA (2017g, online).
\textsuperscript{207} Bershidsky (2017, online).
states’ debts. During their electoral campaign, the Liberals already declared in addition to a Eurozone budget also mutualizing national debts as a red line. Instead, the FDP calls for an independent institution to monitor compliance with the Stability and Growth Pact, an insolvency procedure for Euro states and a right to leave the Eurozone without losing EU membership\textsuperscript{208}. The FDP wants to introduce rules that prevent member states from financially assisting each other. The Liberals prefer to remedy causes of the crisis by stricter monitoring, rather than promoting the possibility for moral hazard. Christian Lindner even said that the German stability rules should be applicable Europe-wide\textsuperscript{209}.

The Greens have repeatedly opposed the austerity policy of the grand coalition as well as the lack of debt relief for Greece and criticized the Chancellor’s rejection of Eurobonds. It can thus be assumed that they would not disapprove a mechanism that communitizes national debt, albeit not unconditionally. The Greens are convinced that the Union needs a change in paradigms, and favor more future investments instead of austerity\textsuperscript{210}. A point of view that indicates a possible willingness to reform Europe further in this direction.

6.4. \textbf{Euro Finance Minister}

Jean-Claude Juncker and Emmanuel Macron both proposed a Euro Finance Minister. Although Juncker explained this possible new position more precisely, several points remained unclear. Whether a Euro Finance Minister will have the power to manage, dispose and apply effective controls over the European budget or only over Macron’s proposed Eurozone budget has not been clarified yet. Neither Juncker nor Macron elaborated on this point in detail. Maybe because of tactical reasons, as they know that German parties are very skeptical towards a Euro Finance Minister with extensive powers. Juncker stated that a European Minister of Economy and Finance, as he calls the position, should coordinate all EU financial instruments assisting member states in a recession or hit by a crisis and must be

\textsuperscript{208} FDP (2017, p. 125).
\textsuperscript{209} Bullion et al. (2017, online).
\textsuperscript{210} Bündnis 90/Die Grünen (2017a, p. 71).
accountable to the European Parliament. Juncker holds the opinion that the Union does not need parallel structures and considers a budget for the Eurozone as well as a Eurozone Parliament as not necessary. Furthermore, they remained vague about the Finance Minister’s powers in general. The Minister for Economy and Finance should promote and support structural reforms in the member states and build on the Commission’s work\textsuperscript{211}. Macron wants a Eurozone Finance Minister to be subject to the democratic control exercised by a Eurozone Parliament. His proposed minister should probably surveil the Eurozone budget and pursue the target of reducing the existing high unemployment rates in certain member states to foster European competitiveness\textsuperscript{212}. Macron left the question to what extent the Eurozone Finance Minister possesses the competence to intervene in budgets of countries that face a financial crisis or even in every member state’s budgetary preparation as well as economic and financial policies unanswered\textsuperscript{213}.

The willingness to create the position of a full-time chairman of the Eurozone is certainly present in the CDU, but above all significantly higher than in the CSU. Nonetheless, some politicians are critical towards the new position because they see the construct between the budgetary surveillance of the Commission, the Eurogroup’s decision on granting aid to countries, and the ESM for assisting distressed member states as adequate. Hence, they believe that this architecture does not need to be changed. After Macron’s speech, however, Chancellor Merkel already indicated that she could imagine expanding certain competences of the European Union and creating a combined Economy and Finance Minister for Europe\textsuperscript{214}. Also, Ex-Finance Minister Wolfgang Schäuble favors a Eurozone Finance Minister. However, what needs to be clarified is which responsibilities, powers, and rights such a Minister of Finance would have\textsuperscript{215}. Although the CDU is not averse to such an idea, the powers of this new Minister should remain manageable. The CDU pleads for targeted monitoring, strict rules and compliance which should be controlled. However, CDU politicians said that they consider Macron’s vision of a

\textsuperscript{211} Barker and Brunsden (2017, online).
\textsuperscript{212} Melander and Körkemeier (2017, online).
\textsuperscript{213} Becker (2017, online).
\textsuperscript{214} Berschens (2017a, online).
\textsuperscript{215} Balzer and Klormann (2017, online).
Euro Finance Minister as unenforceable because treaty changes seem currently unrealistic\textsuperscript{216}.

Unlike the Chancellor, the CSU expressed disagreement with the creation of a European Minister of Finance that may intervene in the budgets of distressed states. In that respect, the CSU sees an intervention in the decision-making power of the member states, because the EU should not decide how countries draw up their national budgets. In addition, the party sees treaty changes as an immediate danger since they could create a hidden European financial compensation or a transfer system. For the CSU it is important that financial stability in Europe is strengthened, but it remains questionable whether this goal will be achieved by creating a new minister or even new institutions\textsuperscript{217}.

In principle, the FDP vehemently rejects reforms that guarantee Brussels more rights of intervention in national policies of member states. For this reason, it is important what duties and powers a proposed European Minister of Finance would possess. The introduction of a European Finance Minister with limited powers and being head of the Eurogroup would be in accordance with the FDP’s political principles, but in general, the party has a critical attitude towards this reform idea made by both presidents\textsuperscript{218}. Should this Minister of Finance be able to help weak and indebted states with additional financial resources or have the right to intervene in the budgets of the member states, the FDP will certainly reject this proposal. It is to be expected that the FDP will reject any reform that may undermine strict fiscal discipline, fiscal austerity or economic stabilization and perhaps lead to a transfer system between indebted and richer states. Though, if the powers remain manageable, the FDP would have no objection to the Minister taking the lead of the Eurogroup\textsuperscript{219}.

As it makes no sense for the Greens that European member states share a common currency but still do not have a common fiscal policy, they are in favor of a European Finance Minister to deepen democratic consolidation. Generally, the Greens support the extension of European competencies. Therefore, a European Finance Minister,

\begin{flushleft}
\textsuperscript{216} Die Welt (2017, online).
\textsuperscript{217} Neukirch (2017, online).
\textsuperscript{218} Berschens (2017b, online).
\textsuperscript{219} Berschens (2017a, online).
\end{flushleft}
more parliamentary control and targeted investment must be organized within the Commission, the European Parliament, and the EU budget, as Europe should not become a selected group of countries. The Greens believe the Eurozone in particular needs further reforms in order to recognize potential risks to the economic stability in Europe at an earlier stage and to protect the member states against them. Therefore, the proposals of Macron and Juncker should be examined by the federal government to be able to engage in an intensive dialogue and to initiate further integration.

6.5. Expansion of the Eurozone

Juncker fueled the debate on the future shape of the Eurozone, which he urges to expand as the member states committed themselves by signing the Maastricht Treaty to join the Euro sooner or later. Besides that, he proposed the creation of a Euro-accession Instrument that would offer technical and even financial assistance, without giving further details. The problem with this proposal is that precise details on how this instrument will work and where the money will come from remained unclear. As the two remarks concerning the Eurozone prompted negative reactions in the German parties and the German press, where citizens fear another bailout if countries are forced to adopt the currency, the Commission had to clarify his remarks. It published a press release, saying that Juncker does not intend to force countries to join the common currency if they are not willing or able to do so and considered the headlines in the national German press exaggerated. The strict accession criteria for joining the Euro will continue to apply. Nevertheless, reaching an agreement on such a sensitive topic as the founding of an accession instrument will be hard to achieve as long as Germany has no federal government. As one might expect, it is probable that Germany will support such an instrument if compliance with the different rules is still ensured no transfer on the burden of German taxpayers is created otherwise the proposal will face major challenges.

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220 Bündnis 90/Die Grünen (2017c, online), Balzer and Klormann (2017, online).
221 Barker and Brunsden (2017, online).
222 European Commission (2017d, online).
The parties rejected the proposal by a huge majority, as it was deemed to be overly ambitious. Solely the Greens consider this proposal as rightly aimed. The fact that the Euro will one day be introduced by all member states is still a distant prospect but it is the right target. Europe needs such bold visions to move forward\textsuperscript{223}.

The smaller parties CSU and FDP expressed a general rejection towards the introduction of the Euro in all European member states and a Euro-accession Instruments. In its Bayernplan the Christian Social Union rejects the establishment of new institutions on European level. CSU Minister of European Affairs Beate Merk called Juncker’s remark a utopian idea since Europe has suffered for years from the consequences of extending the Eurozone too quickly. Furthermore, an adoption of the Euro in Bulgaria or Rumania is an absurd proposal to her\textsuperscript{224}. Instead, the principle of strict stability should apply to the Euro and the Maastricht stability criteria must be met before a country can join the common currency. This position is also supported by the FDP, whose leader said that prior to the expansion of the Eurozone its stabilization has to take place and the real enforcement of debt rules should be ensured before new member states join the euro\textsuperscript{225}. Considering the parties’ positions towards a Eurozone budget or financial transfer it was also probable that CSU and FDP would have opposed a Euro-accession Instrument that might create some sort of financial transfer.

Merkel said that in principle it should be possible to every member state to participate in the Euro area but insists on compliance with the applicable rules in the event of admission and one should, therefore, proceed with caution. Countries must first be able to manage a currency over which they cannot longer decide by devaluation\textsuperscript{226}.

Since Juncker mentioned the accession instrument only briefly because the Commission will publish a roadmap for deepening Europe’s Economic and Monetary Union in December, this proposal provoked rather restrained reactions from party representatives.

\textsuperscript{223} DPA (2017h, online).
\textsuperscript{224} DPA (2017j, online).
\textsuperscript{225} DPA (2017a, online).
\textsuperscript{226} Zeit Online (2017b, online).
Now the reform proposals have been made it is up to Juncker and Macron to convince the other countries of their visions and to create the willingness for reform through an intensive dialogue. Only in this way bridges can be built for the future, European fiscal integration fostered, the EMU deepened and member states can grow closer together. During the outbreak of the crisis, it became clear that the monetary union cannot continue in the same way as before and the Union's fiscal construct must be reformed to ensure stability in Europe. Even if the proposals involve a serious transfer of sovereignty, the Union can only advance if the member states are convinced of the importance of the reforms and willing to introduce them. In the wake of the crisis, it became obvious that member states were willing for reform and agreed on solutions that had seemed impossible for a long time.

All in all, Juncker and Macron have made comprehensive proposals to achieve a decisive shift towards a stronger and more closely linked European Union. As the media analysis shows, the speeches drew mixed reactions among the parties and Germany will not support all visions. Merkel is expected to release her own suggestions\textsuperscript{227}. Especially with a Jamaica-coalition several points would have been unrealizable, although the parties agreed that the EMU needs overhauling. The Liberals insist on the obedience to rules, particularly the EU stability criteria. While on the other hand, the Greens want to take Macron’s extended hand because France and Germany should initiate reforms together. It is clear that certain reform proposals regarding the European Monetary Union will not only be opposed by Germany but also by other member states, that would bear the financial burden involved. Yet, no European decision can be made until Germany forms a coalition capable of governing.

\textsuperscript{227} Munchau (2017, online).
7. Discussion and Future Scenarios

The fact that the member states of Europe are stronger if they work jointly together and that the Union needs coordinated policies because of this seems to have been understood by many member states. It can be presumed that also the German parties are aware of this as this understanding can be found in the party programs of all four coalition partners. Close and continuous participation by member states is crucial to the legitimacy and overall success of the European project. Actions should be taken to support national policies on the resilience of the Euro area and cohesion. Such measures should create the necessary fiscal and social foundations and preserve the European model. It is important to recognize financial problems of the states before they develop into serious problems and endanger the Eurozone228. Nevertheless, the Germans endorse a stable economic development in Europe and therefore insist on strict compliance with the legal bases, a strong monitoring of national budget developments and sanctioning of states in the event of non-compliance with the applicable rules. Not only because Germany faces huge problems with its Fiscal Equalization scheme but also because it does not want to pay the bills of other states. Ongoing efforts to further reform and the strengthening of competitiveness, growth, investment and employment must continue at both national and European level and integration must be initiated by the member states.

The importance of enhanced economic coordination and fiscal cooperation became apparent during the crisis. After the weaknesses of the Economic and Monetary Union became obvious, the states agreed on a variety of reforms to strengthen and deepen the Union. Reaching agreements was not always easy because countries like Germany do not want to pay for the mistakes of other states. In this regard, both intergovernmentalism and the new intergovernmentalism are confirmed. On the one hand, Germany has defined its preferences and is only willing to give up certain competences if this leads to advantages and not to further financial burdens for Germany’s taxpayers. Clearly, Germany does not want to pay for the sins committed by other member states. On the other hand, the slogans in the party programs, e.g. “Germany and France as Europe’s engine229”, “We fight for Europe’s cohesion230”,

228 The Sherpas of the Member States (2015, p. 3).
make it clear that consensual behavior in policy-making at European level is desired to be able to reach agreements on reforms.

Which reform steps are possible in the future is now dependent on the new federal government. With a Jamaican coalition, due to the red lines previously defined by the FDP, some integration steps would probably not have been possible, although only answerable on a speculative basis. After the speeches by Macron and Juncker, Merkel has declared similarities and willingness to reform. One can thus expect further changes in the European fiscal construct.

With another grand coalition between the CDU and the SPD, which defines itself as a progressive European party and favors a deepening of EMU, it is probable that some of Macron's proposals will find more support than from a Jamaican coalition. Yet, even with a grand coalition governing for the past four years, Germany showed little willingness to provide tax funding to help financially weak Eurozone countries. A large majority of German politicians opposes transfers and scrutinize the effectiveness of a common budget\textsuperscript{231}. It can be expected that a grand coalition will not agree on any forms of automatic transfers as well as proposals like a joint European unemployment insurance. According to the SPD, Germany needs to seize the opportunity for Franco-German initiatives to push Europe forward, a sign that the party will support Macron's reform ideas\textsuperscript{232}. SPD leader Martin Schulz already declared that a stronger Europe has to be the priority for any future German government. Important questions concerning a Eurozone budget, a European Finance Minister and the future of the EU and Eurozone need not only an answer but also a clear German position\textsuperscript{233}. As the Christian Democrats are willing to transform the ESM, a grand coalition will hopefully agree on allocating considerable amounts of money to new tasks at European level. Yet, the use of these funds has to be subject to the right of veto of the larger member states, as in the case of the ESM. At the time of writing, the SPD did not decide whether it will form a grand coalition again. Results of the talks between politicians of the Union and Social Democrats are expected to

\textsuperscript{231} Wolff (2017, online).
\textsuperscript{232} Nienaber (2017, online).
\textsuperscript{233} Chazan and Buck (2017, online).
be evaluated by the Social Democratic Party Executive on December 15th after the SPD held its party conference. Furthermore, also a “Kenia-coalition”, which is theoretically possible but not probable, is expected to be a more pro-European coalition than a Jamaica coalition would have been. Such a coalition would consist of the Union, the SDP and the Greens. Although a minority government between the Union and the Greens would be an option, it would lead to an unstable situation, as it would further hamper Germany’s ability to make decisions. The government could negotiate EU reforms, but it would have no majority support in the Bundestag.

This leads to the answer to the first hypothesis,

*German coalition talks have a negative effect on further European reforms towards a transfer system.*

With a strong and persuasive FDP, no transfer union would have been possible. Also, no reforms would have been supported, which would have established any kind of transfer between the member states. That would have been incompatible with the political views of the FDP. In addition, the Liberals have repeatedly criticized Merkel for agreeing to aid packages for Greece. Regardless of whether the transfer would have been created on the basis of a Eurozone budget, a debt consolidation or an instrument that would assist states to join the Eurozone, the FDP and also the CSU would have rejected such proposals. Since the negotiations have failed and a Jamaican coalition no longer represents a political future for Germany, it can only be speculated in which direction reforms would have been possible. It is thinkable, however, that the coalition would have agreed more in the direction of sanctions and repeated reformation of the SGP. As can be seen from the media analysis, CSU and FDP are close in terms of content. This fact would probably have limited the room for maneuver of the Chancellor regarding the proposals of Macron. Although the CDU is not a proponent of a transfer mechanism or debt consolidation, the party shows a willingness to develop the project Europe, as it cannot stand still. However, the Greens could have had a balancing effect. Describing both Macron’s and Juncker’s vision as the right path, they might have succeeded in convincing the Chancellor that

\[\text{234 Zeit Online (2017a, online).}\]
more money should be spent on Europe, to move it forward. Nevertheless, also the
Greens would have been against an unconditional transfer between the member
states.

Yet, changes in Europe’s fiscal framework can be expected since Angela Merkel
promised that Germany will soon release its own suggestions for reform proposals. A
Jamaica-coalition would have favored a Europe Finance Minister, albeit with
manageable and clear competencies as well as the transformation of the European
Stability Mechanism into a Monetary Fund with a stronger role in terms of monitoring
risks and compliance. This transformation would confirm Bickerton et al. as this
would create another de novo body.

But after the failed exploratory talks, it is now depending on the Chancellor to reach a
coalition agreement and form a new federal government as soon as possible. An
effective German government is necessary for the economy and the political stability
in Germany. But it is also expected by other European countries because without a
federal government, Germany cannot support any European decision. Because, of
course, a managing government will not and cannot agree on legislative proposals in
Brussels, if Germany’s political future is completely unclear235. Furthermore,
Macron’s proposals can only be realized with a Chancellor who is capable of making
decisions. France’s government spokesman Benjamin Griveaux intimated that the
implementation of reforms is impossible without a “strong partner” in Germany236.
Without Germany, Macron can hardly implement any of his visions. Moreover,
Donald Tusk’s schedule, the Leaders’ Agenda, will also experience a slowdown. The
meeting in mid-December will take the first steps towards reforming EMU, with the
heads of state and government being supposed to agree on a timetable for
decisions. Such decisions are often negotiated for months in Brussels but the heads
of state do not have so much time for discussions as the election campaigns of the
members of the European Parliament begins in summer. Europe cannot afford to
wait another two years for reforms, it must catch the wind in its sails. According to
media reports and statements, a weak Merkel also means a weakened Europe and it

235 Uken (2017, online).
236 Reuters (2017, online).
must wait for a German government to make joint decisions. The European Union will have to reorganize itself in the future and make use of the window of opportunity. In which direction reforms will be possible depends on the positioning of Germany, which is still to be expected.

All these facts confirm the second hypothesis,

*The European Union’s agenda depends on Germany’s national policy.*

Should the set-up schedules drastically shift due to further long-term government formation, it will be very difficult to use the wind in Europe's sails and to implement the proposed reform ideas. Here, too, the new intergovernmentalism is confirmed, because preference formation and integration do not happen independently of each other. It is obvious that the events in Germany will have an influence on further integration steps. The Social Democrats have not decided yet whether they are willing to form a grand coalition and, above all, new elections would jeopardize the project of Juncker and Macron to promote and support reforms in the member states. With a minority government, an agreement would be even harder to find. European decisions on the Economic and Monetary Union are only possible with political stability and a reliable federal government in Germany. Nonetheless, Merkel knows that the expectations that Germany takes a position and draws conclusions are great. She reminded the German parties of their responsibility for Europe and appealed to form a stable German government. Considering the current situation of optimism and the window of opportunity for reform it is of utmost importance that Germany, one of the big five European member states, is capable of acting.

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237 Uken (2017, online).
8. Conclusion

After the adoption of the Euro, the threat of economic spillover between the participating member states rose significantly. Simultaneously, the risk of exchange rate changes and the national banks’ power to control national interest rates disappeared. In the absence of strict fiscal rules, the risk of free riding and moral hazard behavior would increase among members of a currency union because the costs of expansionary policies are spread across all members in the form of higher interest rates\textsuperscript{239}. In order to avoid such behavior and an aggregate deficit and debt in the Euro area well beyond what is sustainable, the Union must possess the right means to prevent this.

As discussed in this thesis, only after the onset of the Euro crisis, the member states agreed on adopting important reforms and creating new instruments, confirming the new intergovernmentalism. Measures were necessary in order to secure financial stabilization across the European Union after the states realized that the EMU’s architecture will collapse in the long run. Not only did the monitoring of the member states undergo a reinforcement, but also various conditions for national fiscal policies were defined. In addition, reporting on an ex-ante basis gained importance, followed by several new instruments for avoiding macroeconomic imbalance. Since some of these decisions have only recently come into force, it is too early to assess the effectiveness of these measures but may be the basis for future research. The recent reforms and discussions give the impression that member states realized the importance of establishing an institutional framework that secures fiscal developments in Europe. However, although a number of EU proposals (Commission White Paper, Four/Five Presidents Report) published steps towards completing the Economic and Monetary Union, member states, especially those with stable economic situations, remain stubborn in creating any kind of transfer system or relinquishing further fiscal sovereignty. The establishment of a durable form of economic governance has been extremely difficult. Only when faced with emergency situations did the member states act in a bold way\textsuperscript{240}. The fact that remains is that countries will always diverge concerning their economic performance. In this case,

\textsuperscript{239} European Commission (2005, p. 81).
\textsuperscript{240} Jabko (2014, p. 135).
the member states have to act as a Union and show their willingness for establishing a deeper Economic and Monetary Union, as proposed by Emmanuel Macron. Furthermore, they have to show solidarity to preserve the weaker member states from possible financial disaster and to achieve the European vision of converged countries.

As one could impute to the member states that they see the need for structural reforms and fiscal discipline as an unfair requirement demanded by Brussels instead as a necessity, future reforms have to fulfill two demands. The first one is to enhance the given fiscal framework in general. The second one is the need to restore faith in the democratic legitimacy of the Union. Based on this, the guiding principle for future reforms has to be based on an understanding that further distribution of risk can only function properly if these reforms also ensure greater fiscal discipline and integration. The best way of ensuring democratic legitimacy and accountability is to couple the necessary deeper integration of financial regulation, fiscal and economic policy and other instruments with appropriate political integration as suggested by Macron and Juncker in their speeches. Of course, this requires a major step forward in integration towards a more centralized fiscal policy, but this will not only benefit the states but the credibility of Europe’s strength.

The lesson from the last years is that Eurozone countries are paying a high price for the lack of not having a genuine EMU with a common transfer system for redistributing resources from one member state of the Eurozone to another. Countries share one currency and one interest rate, but there is no fiscal union to assist the monetary union. As a result, besides several medium-term problems, the long-term problem is the absence of a mechanism for transferring taxes raised in Euro countries that are doing well into those parts that are facing difficulties in order to soften the effects of imbalances. Until the creation of this mechanism as well as the possibility to sanction countries for not implementing country-specific recommendations limiting moral hazard, current structures are inadequate and crises such as the one Europe currently faces are very likely to return. Member states have to work closely together to strengthen Europe and to make it great again.

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241 Samuel (2017, online).
Additionally, also the visions of France’s President and the European Commission’s President for the deepening of EMU will face a lack of enforceability.

While much has happened in the years during the crisis, it is clear that the European Economic and Monetary Union still needs to be developed further. Further reforms must be initiated by the member states. Jean-Claude Juncker and Emmanuel Macron have made many proposals that now need to be discussed, and Donald Tusk has set a timetable for concrete action for the heads of government over the next two years. However, not all states have the same vision and compromises must be made. A member state that opposes any kind of European transfer and advocates compliance and sanctions is Germany, although its fiscal framework shows remarkable similarities with Europe’s fiscal instruments. German parties reject the creation of a transfer system not only because Germany does not want to pay the bills of other member states but also because the German financial equalization has led to misbehavior and represents a major burden for the net contributors. Some German Länder pursued unsustainable national budgets and have to be financially supported. As a result, the donor countries insisted on reforming the Fiscal Equalization scheme and the Stability Council was formed.

At the moment Berlin can hardly comment on one of the points made by Juncker or Macron without having a federal government. The Jamaican negotiators argued for weeks before putting an end to the exploratory talks. Discussions on a possible grand coalition are, too, expected to take time but considering the Leaders’ Agenda and the upcoming elections for the European Parliament, Europe has a very busy schedule and only little time. Europe needs Germany for the necessary momentum but at the time of writing the state was busy with its own political calendar.
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10. Appendix

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FDP und Grüne ziehen vor Jamaica Gesprächen Handbremse an, 

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Das müssen sie erst einmal schaffen: http://www.zeit.de/2017/43/sondierungsgespraechen-union-fdp-gruene-fluechtlinge-klima-europa/komplettansicht
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Die FDP stellt sich einer Reform der EU nicht entgegen,

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Emmanuel Macron to push euro plan into German coalition talks,
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Germany’s “Jamaica” option puts Macron plans in doubt,
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B. Grid

Explanation of Abbreviations

FT – Financial Times

HB – Handelsblatt

HB G – Handelsblatt Global

PP – Party Program

TEC – The Economist

<table>
<thead>
<tr>
<th>Financial Transfers</th>
<th>Communitization of Debt</th>
<th>Eurozone Budget</th>
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<tr>
<td>CDU</td>
<td>FDP und Union lehnen Transferleistungen oder eine gemeinsame Schuldenaufnahme in der Euro-Zone ab. Reuters 26.9</td>
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<td>„Ich will, dass auch in Zukunft beim Einsatz europäischer Mittel Kontrolle und Haftung zusammen betrachtet werden“, so Merkel. „Eine Vergemeinschaftung nationaler Schulden wird es mit mir nicht geben.“ Zugleich bremste Merkel die Debatte über einen EU-Finanzminister. Zeit 10.10., HB 10.10</td>
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<td>Wir wollen die dauerhafte Stabilisierung der Euro-Zone erreichen. Maßstab muss dabei bleiben: Eine Vergemeinschaftung von Schulden schließen wir weiter aus. PP</td>
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<td>Debt &quot;mutualization&quot; -- sharing the risks and</td>
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<td>On the euro, she said, Germany will make its own proposals. And my expectation is that these will prevail. Mr Macron may get his defence union, his European universities and maybe even a common corporate tax rate. But on the eurozone the French president will get very little. FT 1.10</td>
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<td>Europas Problem nicht ein Mangel an Geld, sondern ein Mangel an Wettbewerbsfähigkeit ist. Zeit 30.9</td>
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<td>Ex-Finanzminister Wolfgang Schäuble geht davon aus, dass dafür Änderungen an den EU-Verträgen notwendig sind – ein schwieriger und</td>
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In der CDU ist die Bereitschaft, einen europäischen Währungsfonds einzurichten oder einen europäischen Finanzminister zu installieren, dagegen deutlich höher. Zeit 3.10

Schäuble Papier, Der ESM solle künftig stärker für die Krisenprävention eingesetzt werden, heißt es in dem Papier. Denkbar sei etwa, dass der ESM „schrittweise“ eine stärkere Rolle in der Aufsicht über die Haushaltspolitik der Mitgliedstaaten übernehme. FAZ 10.10

„I am strongly convinced that Europe cannot stand still, and that it must continue to obligations among the EU members -- equals moral hazard: It "would only buy time and repeat national mistakes of the past." Bloomberg 10.10


Bundeskanzlerin und CDU-Chefin Angela Merkel hatte am Montag erklärt, sie wolle derzeit keine roten Linien ziehen. “Was vernünftig ist, das wird die Union unterstützen. Reuters 26.9

But Merkel sounded more hesitant on Mr. Macron’s euro-zone reform proposals and said Germany would soon be releasing its own suggestions. HB G 27.9

Von finanzieller Umverteilung weg vom leistungsstarken Deutschland hin zu Krisenstaaten hat sie nie viel gehalten und tut es bis heute nicht. Merkel braucht keine FDP in der Regierung, um ein großes Euro-Budget abzulehnen. HB 27.9

The chancellor said she
Ms Merkel said. “We should very quickly enter into discussions.”

FT 28.9

would consider “a small budget” and welcomed the idea of helping weaker economies financially in exchange for tough reforms. FT 19.9

In addition to the tough line on debt restructuring, the German paper said Mr Macron’s plan for a large euro area budget to help out countries in times of trouble is “economically not necessary for a stable monetary union”. FT 10.10


Tagesspiegel 10.10

CSU

Innenminister Joachim Herrmann: "Was Macrons finanzpolitische Vorstellungen angeht, bin ich sehr, sehr

Die CSU wendet sich in ihrem Bayernplan explizit gegen die Einführung von Eurobonds. Sie fordert zugleich Sanktionen

Der CSU-Abgeordnete im Europa-Parlament, Markus Ferber, sieht die Gefahr, „dass mit einem Eurozonen-Budget ein großes
skeptisch. Es läuft letztendlich auf mehr Transfer hinaus." SZ 29.9, Zeit 29.9

strikt gegen neue Finanztransfers in der Währungsunion. Zeit 30.9

Hans Michelbach: “Macron’s plans boil down to turning the euro zone into a borderless transfer union.” These are the “wrong lessons” to take from the euro debt crisis, he added. HB G 27.9

gegen Staaten, die den Stabilitätpakt verletzen. Tagesschau

Eine Vergemeinschaftung von Schulden schließen CDU/CSU aus. Zeit 26.10

Wir wollen ein stabiles Europa, auch was die Finanzen betrifft. Wir wollen als CSU keine Schuldenunion", sagte Scheuer. Mit Schuldenunion ist die Vergemeinschaftung von Schulden der EU-Staaten gemeint. Zeit 26.10, SZ 26.10

neues Umverteilungsinstrument durch die Hintertür eingeführt“ werde. HB 27.9

Auch ließ die Kanzlerin abermals ihre grundsätzliche Offenheit gegenüber Ideen für einen Umbau der Währungsunion erkennen. Was sie damit konkret meint, ließ sie indes weiter offen. FAZ 29.9

Eine Größenordnung für den Etat nannte er am Dienstag nicht – nicht zuletzt mit Rücksicht auf Deutschland, wo vor allem die FDP und die CSU ein Euro-Zonen-Budget ablehnen. Tagesspiegel 27.9

FDP

Lindner hat deutlich gemacht, dass er einen dauerhaften Finanzausgleich zwischen armen und reichen Staaten der Währungsunion ablehnt. Er fordert ein "Verfahren für geordnete Staatsinsolvenzen", finanzschwache Staaten würden demnach also nicht mehr gerettet, sondern für zahlungsunfähig erklärt werden. Zeit

„bessere Europapolitik“, mehr Wettbewerb, gegen Schuldenschnitt

Die gemeinschaftliche Haftung für Schulden einzelner Staaten wollen die Liberalen ausschließen. Finanzhilfen des Rettungsschirms ESM sollen nur unter strenger Anwendung der Vergabekriterien möglich sein und langfristig auslaufen. Tagesschau


Europafreundlich, aber beim Thema Euro sind die Liberalen wenig flexibel – gegen EWF, EU Budget und EU

In den kommenden drei Jahren werde es eine Auseinandersetzung um neue Töpfe geben, aus denen automatisch Geld für Konsum fließen solle, sagte Lindner. Erst wenn der vom französischen Präsidenten Macron geforderte und von Kanzlerin Merkel „offenbar tolerierte Finanzausgleich abgewendet ist, kann man über mehr..." Zeit 30.9

Sie will künftig auch gegen Hilfskredite für schwächelnde EU-Staaten stimmen und lehnt vor allem eine Vermögensaufnahme der Schulden ab. Zeit 16.10

Im Falle eines Schuldenschnittes müsse Athen die Eurozone verlassen. Den Aufbau eines Europäischen Währungsfonds sieht er skeptisch. SZ 22.10

Für die FDP ist die Ablehnung neuer Finanztransfers geradezu eine Identitätsfrage. "Wir lehnen einen europäischen Finanzausgleich über ein Eurozonenbudget und eine Vergemeinschaftung der Einlagensicherung der Banken ab", heißt es unmissverständlich im Programm der Liberalen. Die FDP wünscht sich stattdessen eine unabhängige Institution, die die Einhaltung der Regeln der Währungsunion überwacht, eine Insolvenzverordnung für Eurostaaten und ein Austrittsrecht aus dem Euro ohne Verlust der Finanzminister, Zeit 30.9

Dass Deutschland in einen Euro-Haushalt einzahle ist für Lindner „rote Linie“ Spiegel 25.9

Graf Lambsdorff: Ein Budget für die Eurozone wäre ein permanenter Länderfinanzausgleich auf europäischer Ebene. Damit würde der Anreiz für andere Länder sinken, solide zu wirtschaften. Man kann über eine Reform der Statuten des ESM durchaus sprechen. Wie das im Einzelnen aussehen wird, werden wir nach der Bundestagswahl sehen. Tagesspiegel 20.9

"Was wir nicht brauchen, sind zu viel Staat und neue Steuern. Die Eurozone braucht mehr Wettbewerbsfähigkeit, keine neuen Geldtöpfe." SZ 26.9

FDP leader Christian Lindner immediately ruled out support for an Emmanuel Macron-style eurozone budget to help euro countries in times of trouble. FT 25.9
CSU und FDP befürchten, dass die EU-Reformpläne des französischen Präsidenten Emmanuel Macron für Deutschland teuer werden könnten. Zeit 29.9

FDP-Vize Wolfgang Kubicki sagte: "Die Idee, dass Deutschland alles bezahlen soll, die hätte ich als französischer Politiker auch." SZ 29.9, Zeit 29.9


Einen gemeinsamen Währungsfonds sieht die FDP skeptisch. Generell verlaufen die Konfliktlinien hier zwischen CDU/Grünen und CSU/FDP. Zeit 26.10

Die FDP will Regeln einführen, die verhindern, dass Euro-Staaten notfalls einander retten. Parteichef Christian Lindner will durchsetzen, dass die deutschen Stabilitätsregeln überall eingehalten werden. SZ 26.10

Im Übrigen stehen einige Abgeordnete der CDU und viele in der bayrischen Schwesterpartei CSU den Positionen der FDP wohlwollend gegenüber. HB 4.10

Dass Macron bei einer FDP-Regierungsbeteiligung kein leichtes Spiel mit seinen Plänen für eine großzügige Politik gegenüber notleidenden Euro-Staaten haben dürfte, machte auch Christian Lindner am Montag deutlich. Der FDP-Chef statt dessen sprach er nur allgemein von einem „gemeinsamen Haushalt“ als Instrument für Investitionen und gegen unerwartete ökonomische Schocks. So einen Finanztopf könnte man auch innerhalb des EU-Haushalts einrichten, was Kommissionschef Juncker seinerseits auch schon angedeutet hat. Damit könnte vielleicht auch die FDP leben. HB 28.9

Allerdings wolle die FDP die finanzpolitische Eigenverantwortung der Mitgliedsländer stärken. „Mit der FDP würde es keine neuen Umverteilungstöpfe in der Euro-Zone geben.“ FAZ 1.10

Die FDP, die wohl künftig in Berlin mitregieren wird, lehnt ein Eurozonen-Budget bislang ab. Hinzu kommt, dass die Vorstellungen über die Verwendungsziele in der Vergangenheit sehr unterschiedlich waren. Zeit 19.10

FDP will exact a price on EU policy during the coalition talks TEC, 30.9. p 29)
Deutschlands. Die Liberalen sind da mit der CSU eher auf einer Linie, Grüne und CDU auf der anderen Seite. Zeit 20.10, SZ 20.10

“Europe won’t get any stronger if we open further money pits that curtail incentives for sound budgetary policies,” said Alexander Graf Lambsdorff. HB G 27.9

Die FDP verleiht der deutschen „Transfermüdigkeit“ eine Stimme und lehnt jedwede Regelung ab, die deutsches Geld an leistungsschwächere Mitgliedstaaten fließen lässt. HB 4.10

Die FDP, übrigens eine proeuropäische Partei, die unter neuer Führung klar gegen den Irrweg Transferunion Stellung bezieht. FAZ 23.9

Parteichef Christian Lindner gilt als Gegner von Finanztransfers innerhalb der Eurozone. Er hat Macrons Vorschlag in seiner Rede zum FDP-Parteitag sogleich eine Absage erteilt. Wenn das Eurozonenbudget die Idee verfolge, „eine

mahnte eine Trendwende in der Euro-Politik an und forderte, dass die „alte stabilitätsorientierte“ Politik wieder aufgenommen werden müsse. Tagesspiegel1 26.9

FDP’s leader ruled out signing up to a big eurozone budget.


Für die Euro-Zone forderte Frankreichs Staatschef ein eigenes Budget, das aus Steuermitteln finanziert werden könne. Die FDP lehnt den Vorschlag ab. Tagesspiegel2 26.9

The FDP has also been sceptical about the idea of a large eurozone budget, which Euro-federalists hoped to create during a short “window of opportunity” FT 29.9
<table>
<thead>
<tr>
<th>Geldpipeline von Deutschland zu legen, die automatisch und ohne Zweckbindung in andere Staaten Europas geht, dann ist ein solcher Finanzausgleich mit uns nicht zu machen&quot;. TAZ 19.9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Die Grünen kritisieren zudem, dass die Große Koalition eine Spaltung Europas vertiefe, indem sie Schuldenerleichterungen für Griechenland ebenso wie die Einführung von Eurobonds verhindere. Tagesschau 18.10</td>
</tr>
<tr>
<td>Grünen-Fraktionschefin Katrin Göring-Eckardt hat dazu aufgerufen, die Reformpläne des gewählten französischen Präsidenten Emmanuel Macron zu unterstützen. Sie warnte vor einer Spaltung Europas „in einen Euro-Exklusivclub und einen Rest“. Stattdessen brauche es „im EU-Haushalt einen Zukunftsfonds, an dem sich alle EU-Staaten beteiligen dürfen“</td>
</tr>
</tbody>
</table>

The Greens – who are wise on Europe [and
Grüne und mit Einschränkungen auch die CDU wollen mehr Geld für Europa ausgeben, FDP und CSU dagegen weniger. *Zeit 18.10*

Die Grünen wollen mehr Zusammenarbeit in Europa und würden wohl mehr Geld nach Brüssel überweisen. An diesem Punkt ist die CDU zurückhaltend, die FDP lehnt Transfers ab. *TAZ 29.9*

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<table>
<thead>
<tr>
<th>Euro Finance Minister</th>
<th>Eurozone Expansion</th>
</tr>
</thead>
</table>
| CDU                   | In der CDU ist die Bereitschaft, einen europäischen Währungsfonds einzurichten oder einen europäischen Finanzminister zu installieren, dagegen deutlich höher als in der CSU. *Zeit 3.10*  
CDU und FDP können es sich offenbar vorstellen, einen hauptamtlichen Vorsitzenden an die Spitze der Euro-Gruppe zu stellen – solange dessen Befugnisse überschaubar bleiben.  
Euro-Finanzministers – was  
Die Vorschläge des EU- |

Dagegen sagte der Grünen-Europaabgeordnete Reinhard Bütikofer dem Deutschlandfunk, dass Macron Recht habe mit seiner Analyse, „dass wir gemeinsam Geld in die Hand nehmen müssen für bestimmte Zukunftsinvestitionen“.* Tagesspiegel 29.9*

Mr. Özdemir added, “it makes no sense that we share a common currency, but don’t have common fiscal policy.” *HB G 27.9*
Merkel selbst durchaus befürwortet.

Etwas mehr Sympathie zeigt die Kanzlerin für die Idee, einen hauptamtlichen Vorsitzenden an die Spitze der Euro-Zone zu setzen und ihn Finanzminister zu nennen. HB 27.9

Die Kanzlerin hat zuletzt angedeutet, dass sie sich ähnlich wie der französische Präsident Emmanuel Macron einen Ausbau mancher Kompetenzen der Europäischen Union vorstellen könnte: Einen EU-Finanzminister, auch einen europäischen Währungsfonds. Gleichzeitig sagte sie, es müsse die Frage geklärt werden, welche Aufgaben ein solcher Finanzminister habe. Zeit 26.10

In der Außenpolitik gebe es mit dem Posten der Hohen Vertreterin bereits einen "Doppelhut" in der EU, sagt der CDU-Politiker und fragt: "Was hat der europäische Finanzminister für Rechte und Befugnisse?" Darüber wird zu reden sein. SZ 15.9

Vor der Bundestagswahl hatte Merkel eine gewisse Offenheit signalisiert, etwa für den Euro-Haushalt und einen eigenen Finanzminister. Nach der Wahl zeigt sich die Kanzlerin vorsichtiger. Im Gegensatz zu Macron findet sie, es sei nicht der Moment für diese Diskussionen. SZ1 26.9


Bundeskanzlerin Angela Merkel pocht auf das Einhalten der geltenden Regeln im Falle einer Aufnahme eines Landes in die Euro-Zone. Merkel unterstützte derweil die jüngste Forderung von Juncker nach Einführung des Euro in allen EU-Mitgliedsländern. „Grundsätzlich sollte der Euro für alle offen sein“, sagte sie dem Fernsehsender Sat1. Sorgen, dass sich eine Schuldenkrise wie in Griechenland durch die Ausweitung der Euro-Zone wiederholen könne, weist Merkel am Freitag in einem TV-Interview zurück: „Wir haben ganz klare Kriterien, wann ein Land dem Euro beitreten kann.“ HB 15.9, Zeit 10.10

Die Bundesregierung hat die Rede begrüßt, seinen Vorstoß für einen Euro für alle EU-Länder aber nicht kommentiert. FAZ 13.9

Bei den kleineren Parteien stieß Juncker überwiegend auf Ablehnung.
CSU, FDP, lehnten die Euro-Einführung in allen EU-Staaten rundweg ab. Nur Grünen-Spitzenkandidat Cem Özdemir sprach von "einem richtigen Ziel". SZ1 14.9

Das sei "heute utopisch", erklärte Europaministerin Beate Merk (CSU) am Mittwoch in einer Mitteilung. "Europa leidet seit Jahren an den Folgen einer zu schnellen Ausweitung sowohl der Eurozone als auch des Schengenraums." SZ 13.9, Welt2 13.9

Bayerns Finanzminister Markus Söder (CSU) sprach von einem falschen Vorschlag zur falschen Zeit. "Eine Übernahme des Euro für Bulgarien und Rumänien ist absurd" SZ 13.9

CSU-Chef Horst Seehofer trat indes unmittelbar vor der Rede Macrons auf die Bremse: "Beim Euro gilt der Grundsatz 'strikte Stabilität', also auch die Stabilitäts-Kriterien" Reuters 26.9

zu einer Vertiefung der EU und einem Ausbau der Eurozone stoßen vor allem bei der CSU auf massive Vorbehalte. Neue EU-Institutionen lehnt sie in ihrem Bayernplan rundweg ab. In der CDU ist die Bereitschaft, einen europäischen Währungsfonds einzurichten oder einen europäischen Finanzminister zu installieren, dagegen deutlich höher. Zeit 3.10

Bayerns Finanzminister Söder lehnt den Vorschlag von Jean-Claude Juncker ab, die Euro-Zone auf alle EU-Mitgliedsstaaten auszuweiten. „Das ist der falsche Vorschlag zur falschen Zeit“ Welt1 13.9

FDP und CDU können es sich offenbar vorstellen, einen Christian Linder, leader of Germany’s Free Democratic party: “Euro-zone
<table>
<thead>
<tr>
<th>Hauptaamtlichen Vorsitzenden an die Spitze der Euro-Gruppe zu stellen – solange dessen Befugnisse überschaubar bleiben. HB 28.9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Die FDP ist strikt gegen eine EU-Reform, die Brüssel mehr Durchgriffsrechte in den einzelnen Staaten zusichert. Zeit 16.10</td>
</tr>
<tr>
<td>Etwas mehr Sympathie zeigt die Kanzlerin für die Idee, einen hauptaamtlichen Vorsitzenden an die Spitze der Euro-Zone zu setzen und ihn Finanzminister zu nennen. Dagegen hat im Prinzip auch die FDP nichts einzuwenden. HB 27.9</td>
</tr>
<tr>
<td>Richtig ist, dass die FDP der Einführung eines europäischen Finanzministers skeptisch gegenübersteht und dass sie ein gemeinsames Budget für die Eurozone ablehnt. Tagesspiegel 16.10</td>
</tr>
<tr>
<td>expansion? @JunckerEU misunderstands the situation. Real enforcement of debts rules + insolvency order is still missing.&quot; FT 14.9</td>
</tr>
<tr>
<td>Auch die FDP steht dem Vorschlag von EU-Kommissionspräsident Jean-Claude Juncker, dass alle EU-Länder den Euro übernehmen sollten, äußerst skeptisch gegenüber. „Vor der Ausweitung der Eurozone muss seine Stabilisierung stehen“, sagte der FDP-Vorsitzende Lindner am Mittwoch. „Herr Juncker verkennt die Lage in den Mitgliedstaaten der Währungsunion. Noch immer fehlen die wirkliche Durchsetzung der Schuldenregeln und eine Insolvenzordnung.“ FAZ 13.9</td>
</tr>
<tr>
<td>Als rote Linien definierte Lindner im Spiegel eine Erweiterung der Eurozone sowie die Einrichtung eines Finanzausgleichs im Euroraum. „Beides ginge mit uns nicht“, sagte Lindner. Zeit 15.9</td>
</tr>
<tr>
<td>Bei den kleineren Parteien stieß Juncker überwiegend auf Ablehnung. CSU, FDP, AfD und Linke lehnten die Euro-Einführung in allen EU-Staaten rundweg ab. SZ1 14.9</td>
</tr>
<tr>
<td>Presse Grüne 26.9</td>
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<td>------------------</td>
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<tr>
<td>Ein „europäischer Finanzminister“, mehr parlamentarische Kontrolle und gezielte Investitionen müssen innerhalb der Kommission, des Europäischen Parlaments und des EU-Haushalts organisiert sein. <strong>Grüne Bundestag 15.9</strong></td>
</tr>
</tbody>
</table>

though wondered whether a euro-zone parliament was necessary in addition to the current EU parliament. But, Mr. Özdemir added, “it makes no sense that we share a common currency, but don’t have common fiscal policy.” **HB G 27.9** |

Um die Rückbindung der Eurogruppe zum Europäischen Parlament zu stärken, schlagen wir vor, den oder die EU-Kommissar für Wirtschaft und Währung als nächsten Präsident der Eurogruppe zu wählen. **Grüne Bundestag 15.5** |

Die Grünen würden einen Ausbau von europäischen Kompetenzen gutheißen. Europa sei eine "Identitätsfrage" für die Partei, sagte Parteichef Özdemir kürzlich. **Zeit 16.10**