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The New German Government: Business as Usual?

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ANGELA MERKEL RE-ELECTED CHANCELLOR

The re-election of Angela Merkel as Chancellor of Germany on October 28, 2009, was followed by her swearing in and that of her 15 cabinet ministers. Her new four-year term officially started the next day. Merkel was elected by a clear majority, but she nonetheless experienced a small setback as not all of the parliamentarians belonging to her centre-right coalition cast their ballots for her.

THE NEW CABINET- MANY FAMILIAR FACES, FEW NEW ONES

The new cabinet stands for both continuity and renewal. Many in the German media have concluded that the new cabinet is the product of inter- and intra-party bargaining rather than necessarily one where the portfolios have been allocated on the basis of talent. All the CDU/CSU (Conservative) members of the former cabinet are still there, although some have different responsibilities.

Only one appointment really stands out: Merkel managed to install 67-year-old Wolfgang Schäuble – previously the Minister of the Interior – as her Finance Minister. Schäuble, an old stager in German politics with more than 40 years of federal experience in various capacities, described his nomination by the Chancellor as an “honourable impertinence.”

Schäuble will have to find a middle ground between the \$35.5 billion of tax cuts promised in the coalition agreement and the need to save large amounts of money over the new few years. But so far, the coalition has not agreed on any cuts in spending, which is unlikely to be a tenable position for long as the federal debt is expected to rise massively. Schäuble is in a tough position but a powerful one: he holds a veto over any financial decision over the coming four years.

COALITION AGREEMENT

Following tough negotiations since election day on September 27, Angela Merkel’s conservative CDU, its Bavarian CSU sister party and the business-friendly Free Democrats FDP emerged on October 24 with a coalition agreement.

Many saw this coalition as a chance for radical reforms, but this seems rather unlikely now. During the negotiations the different parties reportedly engaged in somewhat heated debates but agreed on large tax cuts that are to be instituted in early 2011. The hope is that Germany can thereby revive her economy and trigger growth. Many have criticized the fact that there are no plans for savings to offset the cost of these tax cuts. At first the parties had floated the idea of passing a supplementary or “shadow” budget for 2009 to plug the hole, but they abandoned the plan after legal experts said it might violate the country’s constitution, the “Basic Law.”

In particular Germany’s states are deeply concerned that tax cuts might mean a drop in their revenues, already under pressure as a result of the economic downturn. And their threats are far from empty. In order for the tax cuts to become law, they must be approved by the *Bundesrat*, Germany’s federal second chamber. Merkel’s new coalition has only a thin majority in the *Bundesrat*, and any dissent from the CDU/CSU/FDP benches could sink her tax cut plans.

The coalition agreement, entitled “Growth. Education. Solidarity.” runs to 134 pages but is frequently vague and defers difficult decisions to future commissions or for further debates.

While Angela Merkel said that she was happy with the agreement and that the parties were anticipating a bright future, the Opposition immediately attacked the government’s program for the next four years. “A grandiose false start,” was the conclusion of Frank-Walter Steinmeier, the parliamentary leader for the Social Democrats who served as foreign minister and vice chancellor in the previous grand coalition government.

Key Points of the Coalition Agreement

Finances, Taxation and Budget

The issue of tax relief was hard-fought during the coalition negotiations. The two sides struggled to reconcile their promises of tax cuts with pledges to get Germany’s budget deficit under control. The business-friendly FDP, promised in its election campaign 35 billion euros (\$53 billion dollar) worth of tax cuts and to scale back government spending. However, there is little financial leeway: economists argue that tax increases will be a necessity due to falling receipts due to the financial and economic crisis. Still, tax relief for low and medium earners will start in 2011. Child benefits will be increased by 2010. The child allowance that is exempt from taxation will also be raised. The partners want to keep employee-employer-shared non-wage labour costs under 40 percent of wages. This is a positive signal for industry.

Labour and Wages

Basically, the new government does not want to introduce changes to the principles that employers and unions determine standard wages. All parties are generally opposed to introducing binding minimum wages for all employees but they do not want to immediately alter those minimum wages that were established in the past. They will be reviewed by October 2011.

Health

One of the most pressing domestic challenges facing the new government is making up the deficit facing Germany’s health insurance system. Altogether, Germany is facing a shortfall of 50 billion euros (\$75 billion) or more in health and unemployment insurance programs. The controversial “state health fund,” which came into force in January 2009, will be continued in 2010, although a government commission will look at reorganizing the fund. In future, contributions by employers are to be frozen, which means that employees’ burden could rise.

Energy Policy

The coalition agreement includes a commitment to climate protection and the further development of renewable energy. At the same time, the coalition wants to extend the lifetimes of nuclear power plants under certain conditions.

Foreign Policy




Few changes are expected here. The agreement underlines Germany’s strong commitment to the European Union. In terms of European economic policy, competition within the common market is combined with a rejection of protectionist measures. A





strong relationship with the United States remains the other essential pillar of German foreign policy. The governing parties are also committed to the campaign in Afghanistan and they support calls for a world “free of nuclear weapons.”






Education





This is described as a central focus. The education policies set are ambitious as the partners seek to establish an “education republic” with excellent schools, colleges and research institutes.

THE NEW GERMAN CABINET

	<p>ANGELA MERKEL</p> <p>CHANCELLOR: Angela Merkel (CDU), 55, became in 2005 Germany’s first chancellor from the former communist East Germany, its first female leader and its youngest. A physicist by training and the daughter of a pastor, she rose to power first as a protégé of former chancellor Helmut Kohl. She is <i>Forbes</i> magazine’s most powerful woman in the world four years running.</p>
	<p>GUIDO WESTERWELLE</p> <p>FOREIGN MINISTER and VICE CHANCELLOR: Guido Westerwelle, 47, takes the Foreign Ministry as is traditional for leaders of the FDP in coalitions with the CDU/CSU. A lawyer by training, he has little experience in foreign affairs but says he will stand by “basic tenets” of German postwar policy. He will be Europe's first openly gay foreign minister. He has no foreign policy or government experience.</p>
	<p>WOLFGANG SCHÄUBLE</p> <p>FINANCE MINISTER: Wolfgang Schäuble (CDU), 67, moves from interior minister to finance minister, charged with balancing the books amid sharply rising debts. Wheelchair-bound since an attack on his life in 1990, the veteran conservative was a close ally of former chancellor Helmut Kohl.</p>

	<p>RONALD POFALLA</p> <p>HEAD OF THE CHANCELLORY: Ronald Pofalla (CDU), 50, was previously the secretary general of Merkel's party. He is very close to the Chancellor.</p>
	<p>PHILIPP RÖSLER</p> <p>HEALTH MINISTER: Philipp Rösler (FDP), a 36-year-old surgeon, is the youngest member in the cabinet. He was adopted as a nine-month-old baby from Vietnam by a German couple and brought up in Germany. A rising star in the FDP, he was minister for the economy and deputy premier in the state of Lower Saxony around Hannover.</p>
	<p>RAINER BRÜDERLE</p> <p>ECONOMY MINISTER: Rainer Brüderle (FDP), 64, deputy chairman of the pro-business Free Democrats since 1998. The veteran was touted as a possible economy minister under Kohl in the late 1990s but missed out before the FDP was consigned to 11 years in opposition in 1998.</p>
	<p>KARL THEODOR ZU GUTTENBERG</p> <p>DEFENCE MINISTER: Karl-Theodor zu Guttenberg (CSU), 37, was Germany's most popular and media-savvy politician in the last cabinet but has had to give up his job as economy minister to head the defence ministry. The baron's main task will be overseeing Germany's unpopular mission in Afghanistan.</p>

	<p>THOMAS DE MAZIERE</p> <p>INTERIOR MINISTER: Thomas de Maiziere (CDU), 54, Merkel's trusted lieutenant since 2005 as her chief of staff, has been rewarded for his loyalty with the post of interior minister. His main tasks will be tackling the threat of Islamic extremism and fostering the better integration of ethnic minorities.</p>
	<p>FRANZ JOSEF JUNG</p> <p>LABOUR MINISTER: Franz Josef Jung (CDU), 50, switches from defence to labour at a time of growing unemployment brought on by the economic crisis. He is rather inexperienced in his new capacity.</p>
	<p>URSULA VON DER LEYEN</p> <p>FAMILY MINISTER: Ursula von der Leyen (CDU), 51, a popular mother of seven, will continue as family minister. In the previous government, she introduced a raft of measures aimed at lifting Germany's traditionally low birth rate including increased benefits for stay-at-home parents and more kindergartens.</p>
	<p>SABINE LEUTHEUSSER-SCHNARRENBERGER</p> <p>JUSTICE MINISTER: Sabine Leutheusser-Schnarrenberger (FDP), 58, has held this position before. She represents the liberal party's more leftist wing.</p>
	<p>NORBERT RÖTTGEN</p> <p>ENVIRONMENT MINISTER: Norbert Röttgen (CDU), 44, is one of the new, younger faces in Merkel's team. He is regarded as eloquent, efficient and ambitious.</p>

	<p>PETER RAMSAUER</p> <p>MINISTER OF TRANSPORT: Peter Ramsauer (CDU), 55, is new in the cabinet. He intends to ensure important infrastructure projects for his Bavarian constituency.</p>
	<p>ANNETTE SCHAVAN</p> <p>EDUCATION MINISTER: Annette Schavan (CDU), 54, did not develop a high media presence during her last term in the ministry, but she remains one of Merkel's confidants.</p>
	<p>ILSE AIGNER</p> <p>MINISTER OF AGRICULTURE AND CONSUMER PROTECTION: Ilse Aigner (CSU), 44, keeps her previous position. One of her key fields is consumer protection.</p>
	<p>DIRK NIEBEL</p> <p>MINISTER FOR DEVELOPMENT AID: Dirk Niebel (FDP), 46, is regarded as a rather strange choice by many. He has previously called for the abolition of the ministry he is now leading.</p>