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Germany's coalition: A mixed bag

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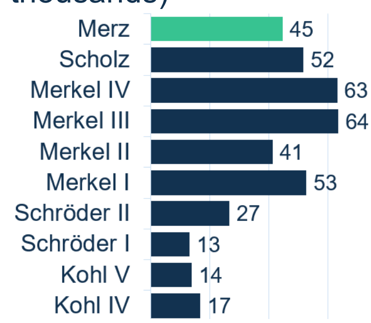
The agreement is better than feared, but not as good as secretly hoped

The negotiations are complete: The German coalition agreement is finalized. The result is a substantial document, spanning 146 pages. Cynics might argue that such an extensive document wouldn't be necessary if the coalition partners comprising the conservative CDU/CSU and the Social Democrats (SPD) trusted each other. Nevertheless, this coalition is less verbose than the previously governing "traffic light" coalition of Chancellor Olaf Scholz (see right). This bodes well for the full legislative period!

Number of words in the coalition agreements (in thousands)



Source: Katapult magazine, SPD, LBBW Research

However, not everything is settled yet, as the SPD must present the agreement to its nearly 360,000 members. At least one-fifth must participate to reach a quorum, and more than half must approve the coalition agreement. I expect this to succeed, as failure would be political suicide for the SPD. In times of extraordinary economic and geopolitical challenges, it would also be highly irresponsible. SPD members know: if this coalition fails, new elections loom. And then, the extreme fringes will sweep in.

What can the economy hope for?

Good incentives for investments

For example, the introduction of enhanced tax incentives for investments is a welcome measure. This should help stimulate corporate expenditure. The structural transformation of the German economy will be fostered, as every transformation requires investment. With a €500 billion special fund, the state aims at taking bold steps attempting to improve the increasingly dilapidated infrastructure. The new depreciation opportunities could lead to new dynamism in private investments, too.

Gradually reducing corporate taxes, Germany will align with international norms again. This is positive. Moreover, the resolve to dismantle overregulation is commendable. In a first step, the coalition is ditching the German “Act on Corporate Due Diligence Obligations in Supply Chains” (phew!). However, its counterpart at the EU level still persists. Further steps are needed. But the first step has been taken. The path is made by walking!

I am less enthusiastic about subsidized electricity prices for industry. Such rebates tend to hinder the necessary structural transformation. But given the uncertain outlook for Germany’s export industry in a Trumpian world I will turn a blind eye for now and count the measure on the positive side of the ledger.

What is missing

No progress on pensions reform

The coalition paper remains very vague on tax policy. This was predictable since the parties come from different universes in this regard. The financing of all these initiatives is unclear. For me, the key sentence is in line 1627: "All measures of the coalition agreement are subject to available funding." This will be interesting. It was equally predictable that the coalition partners would shy away from tackling the unsustainable pension system. After all, 60% of those over 60 voted for the new coalition, but only 25% of those under 25 did.

What would have been better left out

Unnecessary gifts to the voters

Regrettably, the coalition partners also make some unforced errors pandering to special interest groups. After the traffic light coalition had begun bravely to abolish the tax refund for agricultural diesel at considerable political cost, this subsidy is now celebrating a cheerful comeback. Other unforced errors were the more generous commuter allowances and maternal pensions, as well as the value-added tax reduction for restaurants.

But overall, and given the circumstances, the package is somewhat encouraging. It is also positive that Germany will soon once more have an effective government during these turbulent times.

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