Reuploading Fiscal Policy Coordination in EMU

5.1 Adjusting to European economic authority and monitoring

German fiscal policy after the parliamentary elections of 2002

Until now, it has been taken for granted that once common objectives and coordination models in fiscal policy have been enacted in the EU (uploading), the common fiscal policy objectives are implemented equally across Member States (downloading). German Finance Minister Hans Eichel still argued in December 2001 that “wir werden den Stabilitätsakt auf Punkt und Komma einhalten. Da müsste schon der Himmel einstürzen. Aber dann stürzt er nicht nur über Deutschland ein, sondern auch über Europa und der Welt”. However, the unforeseen and serious problems that Germany faced in the implementation phase of the Stability Pact after 2002 resulted in a political situation in which, instead of fully ensuring their execution, Germany tried to reform the common fiscal policy objectives once formulated by Germany itself. Through the process of reuploading the German government actively lobbied in the Ecofin Council to reform the political interpretation of the rules of the Stability Pact, as will be argued in this chapter. Thus, reuploading, as defined in this research, refers to a process by which a Member State uses the common EU institutions and political procedures to reshape the collectively agreed policy responsibilities which were set in t1 to better suit the national interest of that specific Member State after the failed implementation phase in t3 (Figures 1.1 and 1.2).

In fiscal policy coordination this process means that Germany has argued that the rationale of the fiscal rules is still valid in EMU but the original rules no longer comply with the existing developments in the German economy and thus, it has acted to change the interpretation of the Stability Pact in 2003–2005, a new bottom-up process to reupload changed national interests. Although Germany started to reshape the fiscal rules of the Stability Pact since its first major budgetary problems, the European Court of Justice still retained the institutional system of the Stability Pact through
its judgment on the excessive deficit procedure in July 2004. However, the Ecofin Council and the Brussels European Council finally amended the original rules of the Stability Pact of 1997 on 20 and 22–23 March 2005. Therefore, the main question that arises is: due to what politico-economic developments has the German government contributed to the reinterpretation of the fiscal rules of the Stability Pact? This reuploading process of Europeanisation is analysed through three primary developments: a) the problems of Germany to adjust to European economic authority and monitoring in late 2002, b) increasing European economic monitoring in 2003, and c) the softening of the fiscal rules since 2004 (Table 5.1).

In autumn 2002, it seemed somewhat unlikely that there would be Schröder’s second government to follow in Germany because the SPD-led government had not succeeded in maintaining growth and improving employment in the national economy. However, international political developments in Iraq, the fear of war in the Middle East and a domestic environmental catastrophe in East Germany in autumn 2002 caused unanticipated uncertainties over national security, and the prospects for the European market deteriorated still further. Internationally, Germany did not agree to join the coalition forces led by the US against the Iraq government and through this political decision Chancellor Schröder increased the feeling of national security in Germany. Domestically, the public also considered that Schröder responded to the dramatic flood in East Germany quickly and sufficiently and the government allocated enough financial support to the flood area (the River Elbe) in August 2002 just a few weeks before the election in September. Despite this favourable publicity for Schröder before the parliamentary elections, the SPD party leader nearly lost his position as Chancellor to the CDU Chancellor Candidate, Edmund Stoiber, in the elections of 22 September 2002. In the close result, SPD received 251 seats (38.5%) and the Greens 55 seats (8.6%), whereas CDU/CSU had 248 seats (38.5%) out of a total of 603 seats in the Bundestag. Based on the same red-green coalition as the first one, Schröder formed his second government for 2003–2006.

In the new Coalition Agreement 2003–2006 in October 2002, the SPD and the Greens agreed to continue the work for economic, structural and social reforms. They in particular agreed to implement the reforms of the Hartz Commission in the labour market, ensure the financial basis of public services and balance the national economy. The Annual Economic Report 2003 was the first annual budget to be formulated under the new ministry, the Ministry for Economics and Employment, and under the new Minister of Economics, Wolfgang Clement, in January 2003. The report was called “Alliance for Modernisation – Promoting Reforms Collectively” (Allianz für Erneuerung – Reformen gemeinsam voranbringen) and it started with a major argument that “right from the beginning of 2003 Germany introduces the crucial economic and budgetary turning point”. The beginning for this