

## GERMANY: Black zero, not debt brake is the true signpost

A renewed debate has emerged about the infamous debt brake after, in a newspaper op-ed, the chief of Angela Merkel's chancellery argued for changing the constitution to effectively abandon the rule. This, however, remains highly unlikely. Instead, the more interesting question is whether the next government might drop the "black zero" policy of balanced budgets, at least using its 0.35% of GDP deficit leeway under the existing debt brake once the pandemic emergency is over.

Behind the move is the old Merkel strategy of "asymmetric demobilization": her Christian alliance (CDU/CSU) takes on opposition demands, such as, for instance, exiting nuclear power after the Fukushima reactor catastrophe. Merkel swiftly follows changing voter preferences at the center, weakening opposition parties by onboarding their traditional demands, instead turning them into potential coalition partners for CDU/CSU. As discussed in the past, one such issue ahead of September's Bundestag elections will be the role of investment and public services after the pandemic. The bigger context is provided by questions around Germany's growth model amid climate challenges and rising economic nationalism.

With Merkel on her way out, however, the old tactics might no longer work. New CDU leader Armin Laschet rejected the initiative immediately, not least because the chancellor's move had not been cleared with him. Fiscal hawks in the CDU/CSU Bundestag group were also up in arms. Meanwhile, Friedrich Merz's good result in the recent leadership run-off against Laschet demonstrates that after 20 years of Merkel's relentless centrism, there is still a desire for (fiscal) conservatism in the CDU, even among overall pragmatically power-focused conference delegates.

Fiddling with the debt brake might also raise questions among the Greens. On the one hand, the party will be sympathetic to greater public investment, especially to finance the green transition and boost educational attainment among minority groups. At the same time, the Greens have fared best in regional states with financially well-heeled and, on balance, more conservative electorates. Examples include the coalition with the CDU in Hessen, home to Germany's banking center Frankfurt. Baden-Wuerttemberg, the stronghold of manufacturing SMEs and the automotive industry, is ruled by a Green (but often right-leaning) state PM. His coalition with the CDU will be tested in a crucial state election in March.

Some of the Greens' upper middle-class voters might, in fact, be rather skeptical of fiscal largesse, not least because such policies might eventually lead to tax hikes for better-off voters. The Social Democrats remain too disoriented to position themselves clearly. What would the party actually spend on: social services for its (former) low-income core voters, or green and educational projects in a bit to steal new middle-class voters from the Greens?

With no constitutional change in sight, yearly Bundestag votes would be required to mandate deviations from the debt brake threshold of 0.35% after the pandemic. Only lawyers (or indeed, interested politicians) could argue that this demonstrates the tool's pointlessness. In reality, its most important purpose is political. It increases the reputational cost of deviating from tight fiscal rules by requiring an explicit Bundestag vote. The most interesting signpost will be how much of this potential

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pain the Greens will be willing to bear by pushing for a gentler fiscal adjustment path past the pandemic and overcoming at least the “black zero” balanced-budget policy.

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