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The German *Schuldenbremse* crisis: a symptom to be taken seriously in Europe

The priority to be given to the ecological transition and its practical implementation are dividing Germany and Europe. The European Union is being accused of making [the conditions of production](#) for farmers even more difficult: [the number of demonstrations](#) across the European Union has been rising after the Germans began their protests on 15 January 2024, as they denounced the ambitions of the [European Green Deal](#), as well as the human and financial costs.

At the start of 2024, [the German coalition government](#) (SPD, Greens and FDP Liberals) led by Chancellor Olaf Scholz (SPD) is struggling, since its draft budget has been cut by around €60 billion.

The origins of the budget cuts to which the government has had to resort lie in a [decision taken by the Constitutional Court of Karlsruhe](#) dated 15 November 2023. The latter [censured the decision to reallocate 60 billion €](#), initially intended to cushion the economic impact of the pandemic crisis, to a special fund for the transformation of the economy and the climate. For two months now, opposition has been growing in Germany over the resources allocated, the priorities to be defined and the rules governing public debt.

The constitutional [appeal was lodged by CDU-CSU members](#) of parliament, who denounced the government's "[sleight of hand](#)". [As Germany enters a recession](#), the debate is whether or not it is still appropriate to limit public debt to 0.35% of GDP. Current circumstances no longer justify bending the rule: the pandemic crisis is over, and the

exceptional funds earmarked should not be used for the economy or the environment. As a result, since the Constitutional Court's ruling against the federal budget, in addition to opposition over the priority to be given to the green transition in economic and agricultural life, further opposition has emerged: regarding [whether the constitutional principle](#) of the debt brake (*Schuldenbremse*) should be reformed or not.

This principle is firmly defended by [Friedrich Merz](#), leader of the CDU and of the CDU/CSU in the Bundestag. In his view, the debt brake is the only way to avoid saddling future generations with debt, and he fears that lifting it might have a knock-on effect in terms of the financial stability of other European Union countries.

Within the government, the SPD and the Greens (led by the Vice-Chancellor and Minister for the Economy, Robert Habeck), [would like to reform the debt brake](#) to facilitate the necessary investments, in line with the European Green Deal. However, within the same government, the FDP Liberals, led by Finance Minister Christian Lindner, have long refused to challenge this constitutional principle, in the same way as the CDU/CSU opposition. [Christian Lindner is therefore](#) in a difficult situation, caught between traditional positions, his coalition partners and the opposition.

A hard-won agreement [on the 2024 budget](#), on 13 December 2023, provides for cuts that will result, in particular, in the [reduction of tax relief on diesel](#) on agricultural machinery - the main

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focus of demonstrations in Germany – but also in a postponement of the “[climate bonus](#)”. Priorities have had to be set because of this cutback, but they are the source of dissatisfaction both on the part of the farmers, as well as the promoters of the European Green Deal.

The debate on Germany's levels of debt, in the light of the demonstrations now rocking the country, [is further weakening the coalition](#) - the aim in this paper is not to take position on this - but above all, to consider the problem of the priorities to be identified, not only in Germany but also in Europe.

THE CONTEMPORARY DEBT CRISIS IN GERMANY AND ITS REPERCUSSIONS IN EUROPE

The subject of debt is a particularly hot one in Germany. Perhaps because the German word *Schulden*, meaning debt, shares its root with the word *schuldig*, which translates as guilty. This etymology may reflect the German perception of debt and the budgetary rigour that characterises the country within the European Union.

The idea of the debt brake is rooted in the 2000s, a period marked in Germany by the “[weight of the costs caused by reunification on public finance](#).” While the country substantially increased its public spending to make up for the economic underdevelopment of the Länder of the former German Democratic Republic (GDR), unemployment rose significantly. The unemployment rate in Germany rose from 7.3% in 1991 to 12.3% in 1997, then stagnated at 11% in 2005. This trend was also reflected in economic growth, which rose by just 1.4% between 1995 and 2005, compared with growth rates of 3.2% in the UK and 2.9% in France.

[Agenda 2010](#), unveiled by Chancellor Gerhard Schröder (SPD) in March 2003, initiated a series of economic and social reforms, significantly liberalising the labour market while reducing public spending. The aim was twofold: to stimulate the economy and employment, while reducing social security contributions on wages^[1]. This policy significantly reshaped the welfare

state in Germany, marking a major turning point in the country's domestic policy and its management of public spending.

The idea of a debt brake was first mooted in the early 2000s, so it is inaccurate to claim that Germany's aversion to debt is a long-established principle. The historian and expert on Germany, [Adam Tooze](#), points out that from the 1970s to the 2010s, German debt was in line with the average for OECD countries, and was no different from that of France. So, the debt brake is part of the neo-liberal spirit of the 1990s, an idea that we find again in the United States under President Bill Clinton, and in the United Kingdom under the governments of Tony Blair and Gordon Brown. At the end of the 2000s, Germany was unique in having enshrined budgetary rigour in its Basic Law (*Bundesverfassung*).

The 2008 financial crisis was the catalyst for the political consensus that enabled the debt brake to be given constitutional status in 2009. The need to restore sound public finances and restore the confidence of the financial markets in the wake of the 2008 crisis reinforced the budgetary rigour that Germany was already gradually adopting. In 2009, with a two-thirds majority in the *Bundestag* and *Bundesrat*, the Basic Law was amended, adding [articles 109 and 115](#) which enshrined the debt brake as a constitutional principle. At the time, the aim was to re-establish control over public finances, at a time when German debt exceeded 72% of GDP.

The budgets of the Federal State and the sixteen Länder must therefore be balanced, with the federal budget deficit limited to 0.35% of GDP, while that of the Länder must not exceed 0.5%.

Any decision contrary to these principles may be subject to [the censure of the Constitutional Court](#). In other words, it is unconstitutional in principle for Germany to borrow more than 0.35% of its annual GDP for additional expenditure.

This constitutional rule is currently being called into question. Since the decision issued by the Karlsruhe Court on 15 November 2023 declaring the use of

^[1] The best-known measure in the 2010 Agenda, Hartz IV, reduces benefits for the long-term unemployed, forcing them to accept any job offer.

unused debt during the pandemic crisis for the new climate and economic fund to be unconstitutional, the *malaise* appears to be a symptom of the lack of clarity over the priorities to be pursued and not simply a political opposition to the budget.

EXCEPTIONAL PRIORITY AS THE ONLY EXCEPTION TO BUDGETARY PRINCIPLES

The debt brake however has its virtues. Germany has been in budgetary surplus since 2012 and this rose to [record levels in 2015 and 2019](#), when it totalled €12.1 billion and €13.5 billion respectively. The [divergence in German and French trends](#) in terms of public debt since 2009, the year in which the debt brake was enshrined in the Constitution, is regularly used to promote the German model.

This '*budgetary orthodoxy*' was then extended to other Member States of the European Union, initially with the [Six-Pack](#), followed by the [Treaty on Stability, Coordination and Governance \(TSCG\)](#). The twenty countries in the eurozone thus committed to incorporating into their legislation the obligation to maintain a structural deficit of less than 0.5% of the GDP covering all public administrations, thereby reinforcing their budgetary discipline. Perceived as "*subservience to Brussels' technocracy in a matter that falls within the remit of the national legislature*", the TSCG provoked passionate response, [notably in France](#), to name but one example^[2].

This bad image has not appeared to have killed the enthusiasm for and effectiveness of the debt brake among the German population. In a survey published in November 2023, the federal public television channel [ZDF](#) shows that 61% of Germans are opposed to relaxing the debt brake. The economists are more nuanced in their judgement, with 48% in favour, 44% supporting reform and 6% calling for its abolition.

In our view, the question is not whether the constitutionalisation of a budgetary principle is a problem. It is always healthy to discuss the budget and its balance in a state governed by the rule of law. However, a decision is going to have to be taken because

the opposition between what should - or should not - be at the top of German priorities is leading to harmful contradictions at European level. At a time when [the criteria of the Stability and Growth Pact](#) governing the common currency are being discussed in the European Parliament and in the Union's Council of Ministers, what may or may not be permissible in the budget must be strictly defined, both in Germany and in the European Union as a whole.

The debt brake is ranked at the top of the hierarchy of norms in Germany, but exceptions have been allowed in urgent situations. In 2021, for example, the economic crisis resulting from the Covid-19 pandemic and the sharp slowdown in the global economy forced Chancellor Angela Merkel's government to retroactively adopt a second supplementary budget. In [Christian Lindner's view](#), the aim was to demonstrate that the federal government could react and respond to serious crises without breaking with the constitutional obligation. The circumvention of the rule was justified by an exceptional emergency situation - the Covid-19 pandemic and its impact on growth.

At the start of 2024, the question now also arises as to whether the [military support to Ukraine](#) is an exceptional priority justifying an extended circumvention over time of the constitutional rule of the debt brake. This raises some vexing questions: should military support for Ukraine take precedence over ecological transition? Is the ecological transition urgent enough to justify breaking the debt brake rule? The answer can only be political, as constitutional judges cannot make decisions of this kind.

The decision by the Federal Constitutional Court on 15 November 2023 to declare the latest coalition government budgets unconstitutional has plunged Germany into an embarrassing crisis. Everyone is unhappy: those who are in favour of so-called "green" investments because they are urgently needed; farmers who are facing difficulties and are waiting for urgent answers; those who are calling for less budgetary rigour; and those who, on the contrary, think that we need to be even more rigorous.

^[2] It was from this point on that what are now known as the "[Frugals](#)" emerged.

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The question therefore arises as to whether climate change has created an exceptional situation that makes it possible to circumvent the constitutional rule, or - to put it another way - a sufficient reason to go further into debt. There is also the question of whether the difficulties faced by farmers are enough of a crisis to make us a little less rigorous in our climate and budgetary ambitions. Answering these questions in Germany and throughout Europe is becoming a matter of urgency.

According to Shahin Vallée, researcher at the DGAP, [a frank political conversation is required regarding](#) a possible reform: exceptions to the 0.35% of GDP limit must be clearly defined, otherwise they are bound to be unconstitutional. In [Gabriel Felbermayr's](#) opinion all investments should be considered as exceptions to this principle. This is understandable if the objective is "healthy" economic growth from a budgetary point of view, preferably in line with the ambitions of the European Green Deal. But it is now time to take a clear stand.

It should be added that it would be unreasonable to confine ourselves to economic considerations when it comes to setting priorities in the face of urgent needs.

How can we ensure that "[Germany and Europe are prepared for war](#)" if this threat is not considered an urgent priority and therefore does not allow for major exceptions to the budgetary rules? This question requires an immediate

answer, because the risk goes far beyond Eurosceptic criticism and demonstrations by the discontented.

As preparations get underway for the extraordinary European Council on 1 February to [approve the 50 billion € aid package for Ukraine](#) and the budget increase requested by the Commission, chaired by Germany's Ursula von der Leyen, to meet the new challenges, priorities are emerging in most Member States. At the close of the [Agriculture and Fisheries Council on 23 January 2024](#), it was still far from clear that these priorities had been set. The President of the European Commission has stated that she wants to overcome the divide that exists in the debates on agriculture and the ecological transition in [a discussion that was supposed to start on 25 January 2024](#). Unfortunately, these statements are too cautious: they deserve to be clearly defined and prioritised so that the appropriate budgetary rules can be applied. This is imperative for all the governments of the EU Member States and the European Union itself.

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