



Merkel's last term: A Jamaica coalition

- The German elections yielded a tectonic shift in the political landscape: (i) CDU/CSU and SPD, the partner in Chancellor Merkel's grand coalition lost a combined 14pp (ii) for the first time since 1957 six parties managed to pass the 5%-hurdle.
- The CDU/CSU remained the strongest party scoring just 33%, the worst since 1953 and substantially less than 2013 (41.5%). Only 20.5% of the voters elected the SPD – the party's worst result since the end of WWII. Given this weak result SPD leader Martin Schulz immediately announced that his party will head into opposition.
- The two smaller parties at the extreme ends of the political spectrum achieved more than one fifth of the votes with the AfD coming in third (12.6%). The FDP successfully managed to return to the Bundestag but the option of a business friendly conservative-liberal coalition did not materialise. The Greens unexpectedly gained compared to 2013 but came in last among the smallish.
- Angela Merkel is very likely to remain chancellor but will come under fire from the Bavarian CSU which lost strongly to the AfD and will demand a strengthening of the conservative profile. This move will hamper the formation of a Jamaica coalition which will be challenging anyway, given the substantial differences among the four parties involved on issues such as asylum and security, energy and industrial policies and above all EU policy.
- Markets will face a period of political uncertainty as coalition building will take time. The Bundestag has to convene within 30 days but coalition talks are unlikely to turn serious before the elections in Lower Saxony on Oct 15. Also, the Greens and the FDP will hold member ballots on the start of talks as well as on the final deal. Thus, it is likely that Merkel will be re-elected as chancellor only just-in-time for the December EU summit.
- The risk of a failure of coalition forming is small. German voters demand predictability and responsibility in uncertain times. A rejection of centrist parties to support Merkel will backfire in ensuing snap polls and would be a shot in the arms of the strong AfD and the Left. Thus, pressure will be high to come up with a capable government.

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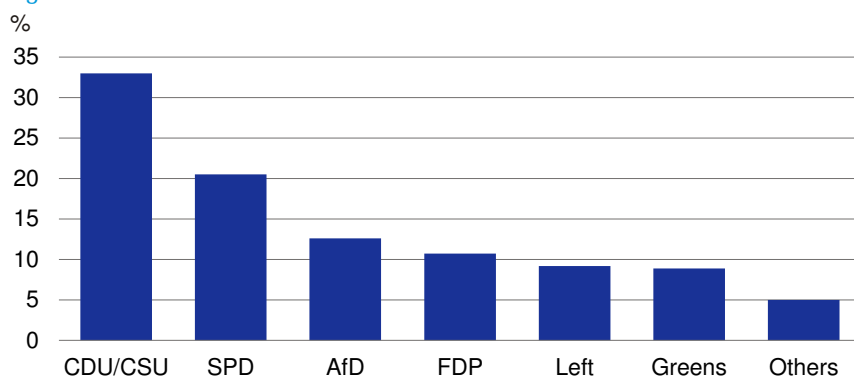
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Shifts in Germany's political landscape

In yesterday's federal election in Germany the parties of Chancellor Merkel's grand coalition lost heavily compared to their results in the past election in 2013. Chancellor Merkel's CDU/CSU clearly remained the strongest party, but it only got 33% of the vote (2013: 41.5%). Thus the conservatives even fell below the 35.2% and 33.8% they got in 2005 and 2009 when Merkel did run for the 1st and the 2nd time as top candidate. In fact, the CDU/CSU came in with the worst outcome ever apart from the 1949 election which was special. The CDU/CSU lost heavily to the AfD and the FDP as the migration crisis clearly took its toll. The weak result, though securing the victory, might have implications for Merkel's ability to follow through certain policy topics within her own party.

Figure 1: Election results



Source: The Federal Returning Officer

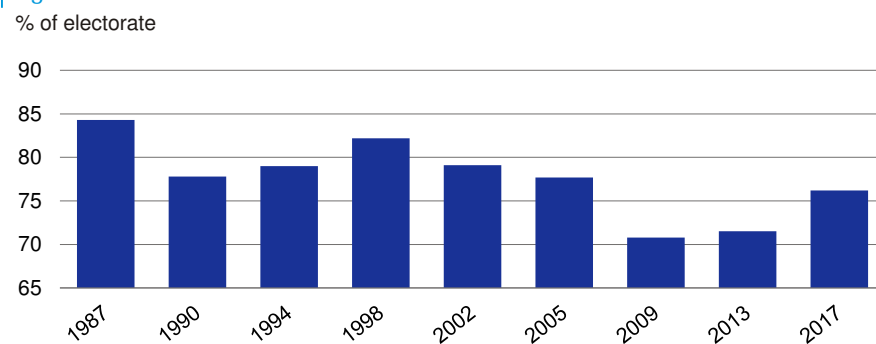
The SPD hit the rocks. Only 20.5% of those who cast their ballot voted for the SPD. Thus it performed even worse than in 2013 (25.7%) and in 2009 (23%) – the party's hitherto lowest share since the end of WWII. Given this weak performance Martin Schulz immediately announced that the SPD will not participate in any coalition but take the role of the opposition leader.

Besides these two groups, four other parties will be represented in the parliament in the new term. Amongst them the AfD performed best (12.6%). Survey on voter migration showed that the AfD won votes from the large pool of non-voters as well as former supporters of other parties, above all from CDU/CSU. However, more than 60% of AfD voters said that they voted for the party because of disappointment over the established parties not because the AfD offers convincing answers. The presence in the parliament gives the far-right AfD an unprecedented platform in post-war German politics and will lead to more noise coming out of the Bundestag. The Left (9.2%) nearly reached its strong result from 2009 (11.9%, 2013 8.6%). Albeit both are differently positioned, the combined almost 22% of the two parties shows that in the end Germany, too, could not fully decouple from the international trend towards populism.

The FDP could also celebrate yesterday evening, as the liberals (9%, 2013 4.8%) managed to return to the Bundestag. These three parties obviously benefited from the bigger parties' weakness while voter turnout substantially increased (76.2%, 2013: 71.5%, historic low in the Federal Republic 2009: 70.8%). The Greens gained compared to 2013 (8.4%) but remained the smallest party.



Figure 2: Voter turnout increased



Source: The Federal Returning Officer

Jamaica – political experiment with volatility

Yesterday's result leaves only two options for coalition building but with Martin Schulz announcing that the SPD will head into opposition the only politically feasible option remains the four party alliance between CDU/CSU, the Greens and the FDP.

However, the agenda of a Jamaica coalition is less clear as the actors involved advocate different solutions with regards to major issues in European, labour market, industry, defence and internal security politics. Hammering out an agenda will thus be challenging.

During the past weeks, in particular the FDP and the Greens attacked each other. A lot of the bickering might have been campaign rhetoric as both parties solicit for votes from partially the same turfs, e.g. civil servants, young professionals, well-off urban citizens. Nevertheless, the fundamental differences between the two parties should not be ignored. All above mentioned issues are highly controversial between the two competitors. At the same time, their views on sustainability in fiscal and social policy overlap. Given that both parties avoided to draw hard red lines, though, they should be able to settle their dispute. This is all the more true as the fundamentalist left-wing part of the Greens has lost influence in the past few years. In January the party members nominated two representatives of the moderate camp as top candidates for the campaign indicating they might take a moderate line on forming a Jamaica coalition.

Thus it could prove to be more complicated to bridge the differences between the Greens and the Bavarian CSU. The latter has always regarded the Greens as a major political opponent in Bavaria in particular, as strong Greens would jeopardize the CSU's majority there. Even more important now, with the heavy losses in Bavaria, the CSU will pressure to strengthening the conservative profile ahead of the state elections in Bavaria in 2018. Both parties also substantially differ in their political culture and values. The CSU is ingrained in various strata of the population including the rural population, craftspeople and blue collar workers. This also explains fundamentally different approach towards asylum policy, internal security, energy, industrial and transport (future of the diesel) policies. This mixture of (individual) aversions and different political views could be a stumbling block for coalition building. However, CSU leader Seehofer has often proved pragmatic and flexible when it was necessary to remain in power.



Complex and prolonged coalition building

However, it will take time for the four parties to consent. On October 15 the potential partners are campaigning in Lower Saxony and are unlikely to risk chances on the regional level by committing to certain positions too early on federal level. Also, Greens will hold member ballots on the start of the talks as will the FDP (in the state of Schleswig-Holstein, where the first Jamaica coalition was formed this summer, the FDP also asked for the backing of its base beforehand). Experience from 2013 with such a “basic-democratic” approach provides sufficient evidence for mantraps of such a process and also for the possible timeline. Thus, it should be no surprise, if the Germans once again will have to wait for Merkel’s re-election as Chancellor until mid-December.

Low tail risk of coalition collapse and ensuing snap election

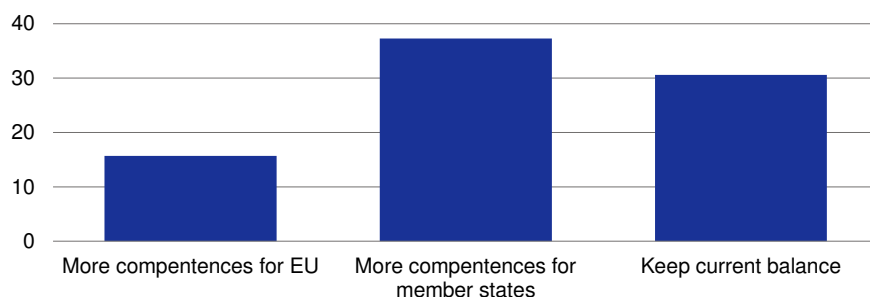
Given the complicated constellation, i.e. the CDU and especially the CSU’s bigger parties’ disappointing result and the unpredictable influence of the Green party members there is the tail risk that the endeavours to build a Jamaica will fail. This would result in snap elections. However, this risk should not be overstated. Such a failure would be a shot in the arms of the AfD and the possibly Left. Therefore, the established parties will make all efforts to compromise in the end.

Policy implication

A Jamaica coalition might at times produce noise. Merkel’s ability to moderate will be on high demand as the junior partner’s will have to scale back on some of their trademarks – for the Green’s in particular on environmental policy and the FDP on tax policy. Also, the FDP demands a more market-based approach while the Greens tend to favour a more interventionist policy. On European topics, a gradual build-out of the euro area will continue but FDP leader Lindner’s “red lines” appear to be reflecting parts of the CDU/CSU camp as well, such as rejecting establishing automatic transfers and an EU finance minister with a rather unclear job description. Thus, while Merkel will be prepared for a closer relationship with Macron, her room for manoeuvre on Macron’s far-reaching demands, i.e. a large euro area budget and institutional changes beyond the transformation of the ESM into an EMF, will be restrained.

Figure 3: Germany's next government should consider in EU politics...

% of surveyed



Source: Allensbach, September 2017





Appendix 1

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