



Liberals – from underperformer to kingmaker of the next government?

- While the Conservatives' position in the polls seems to be in free fall for now, the FDP has regained standing with the voters just in time for the federal election in September. According to current polls, only three-way party coalitions have a majority, hence, the Liberals could end up as the new kingmakers, clearly favouring a coalition with the Conservatives and the Greens (Jamaica) over a traffic-light coalition with the SPD and the Greens. But there are still five weeks to go and the election race is as open as ever.
- Though the FDP traditionally benefits from strategic voting in federal elections, i.e. CDU voters voting FDP with their second vote, we do not expect this to be a major factor this time. As the Liberals currently poll far above the critical 5%-hurdle, there seems to be little incentive for conservative voters to lend their (second) vote to further strengthen the Liberals. Given the weak polling of the CDU/CSU, its senior politicians have started to warn against such tactical voting to ensure the Conservatives come in first and form the governing coalition.
- Were the FDP to be part of the next government, it would likely push for a resumption of a fiscally conservative path and a technology-driven climate policy relying primarily on market-based instruments. On the EU level, the Liberals reject turning the NGEU into a permanent fiscal capacity and prefer to keep the status quo of the SGP.

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Resurgent FDP on track for elections. In time for the federal elections in September, the FDP has regained strength in the polls (see Figure 1), likely to reach at least the 10% of the 2017 elections. Only a year ago, it looked like the FDP might fall below the 5%-mark and thus disappear into (federal) political insignificance. While the FDP was facing an election debacle in the state of Thuringia, the ruling Conservatives were flying high in the federal polls, earning credit for managing the Covid-19 crisis. But the pandemic restrictions provided the Liberals with the chance to raise their profile as champion of civil liberties. Not downplaying the danger of the virus, they called for more targeted and efficient ways to contain the pandemic rather than general lockdowns and by that strengthened their standing among the business sector. FDP head Lindner sold this to voters by stating “The pandemic has proved that when it comes to citizens' rights, you can rely on the Free Democrats.” (DW, May 18). Moreover, the pandemic helped lay bare substantial administrative and digital deficits. The modernization of the state captured public attention and



allowed the Liberals to leverage their respective credibility.¹ This may have helped them to mitigate their image as a party of the better offs only pushing for tax cuts. In order to reaffirm their quest for modernization, the FDP recently presented a “[programme for dynamisation](#)”. Summing up major claims from the election manifesto, it is intended to serve the party as a basis for coalition talks.

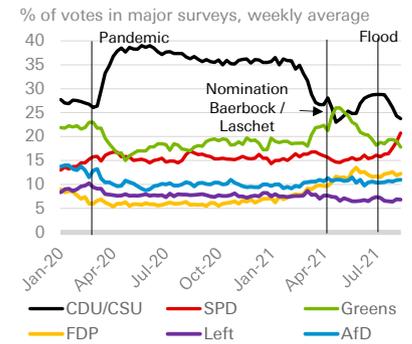
Is Germany heading for three-way coalitions with the Liberals?

Current polls suggest that the FDP will be needed to form a majority government, unless the Left improves substantially and SPD and Greens are prepared to team up with them. Polls have been in flux since the mid-July floods in Western Germany, with the CDU/CSU losing nearly 5pp, now standing close to the 23% mark. Frontrunner Laschet, PM of the flood-affected North Rhine-Westphalia, further lost standing with voters because of his perceived weak crisis management (see Figure 2). Meanwhile, the SPD’s already popular FM Scholz raised his profile by portraying himself as effective crisis manager, providing the needed funds for reconstruction. In the end, and long awaited by the SPD, Scholz’s popularity helped the party back to the 20% polling mark, for the first time since re-entering the grand coalition in 2017. Now the SPD is even polling head-to-head with the CDU/CSU and has overtaken the Greens, according to a recent INSA-poll. The Greens lost in polls given the weakened popularity of their chancellor candidate Baerbock and despite the floods being broadly seen in the context of increasing climate risks. Taken together, these shifts led to an erosion of a black-green majority in polls. Thus, the Liberals, stable in polls, seem to be closer than ever to realizing their intention to become so strong that no “serious” coalition can be formed without them, as set out in the election manifesto. Were this to materialize, the following three-way coalitions could emerge:

- Jamaica coalition – the Liberals’ not so secret favorite.** A CDU/CSU-Green-FDP coalition seems to be emerging as the new promising coalition option should the first two not succeed in forming a majority on their own. We still expect the Conservatives to come in first in the elections and to subsequently initiate coalition talks. So does Lindner, who reaffirmed in a recent TV interview the FDP’s interest in joining a CDU/CSU-led government (ZDF, August 15). Liberals and Conservatives are programmatically close and both Linder and Laschet like to emphasize the good cooperation in the current North Rhine-Westphalian government. But given current polls, the Greens need to be on board as well. The formation of a Jamaica coalition failed in 2017 when the FDP pulled out of the talks. At the time, Lindner said “It’s better not to govern at all than to govern wrongly” (DW, May 18). The move was rather unpopular with voters and the FDP would want to avoid a repeat of this scene. Nevertheless, Lindner recently stood by his 2017 statement and drew a red line with respect to tax increases and loosening of the debt break (ZDF, August 15). The Greens, in contrast, seem equally unwilling to compromise on climate policy and insist on a quick attainment of the CO₂-path, in line with the 1.5 degree target agreed in Paris.
- Germany coalition – rather unlikely center-right option.** The Conservatives and Liberals could also team up with the SPD. However, after eight rather draining years in a grand coalition, we do not expect the SPD to re-enter a coalition with the CDU/CSU. Just recently, the SPD co-chief Esken stated that “new constellations are needed after the elections” (SZ,

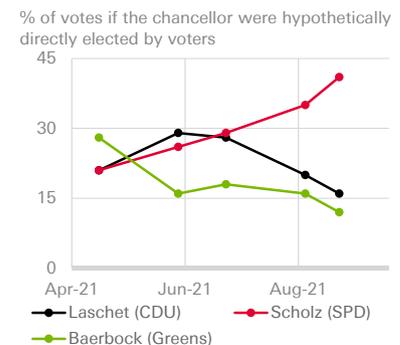
¹ 18% of voters think that the FDP is in the best position to bring forward digitalization; for equally 18% it is the CDU/CSU and for 16% the Greens. For the FDP, digitalization is the policy field where voters attribute them the most competences (ARD Deutschlandtrend May 2021).

Figure 1: Popularity of major political parties



Note: Major political surveys taken into account: Allensbach, Kantar, Forsa, FG Wahlen, Infratest, INSA.
Source: Wahlrecht.de, Deutsche Bank

Figure 2: Scholz now tops the popularity ranking



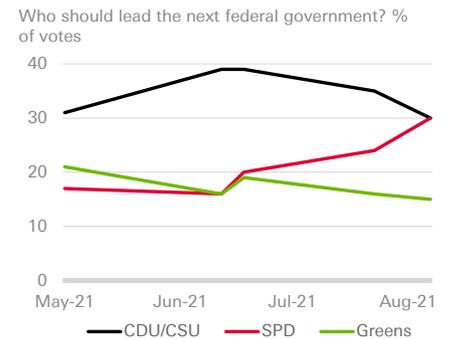
Source: ARD Deutschlandtrend, Deutsche Bank



August 7), referring to a red-green-red scenario, out of reach according to current polls.

- Traffic-light coalition – programmatic chasm in the way.** A Green-SPD-FDP coalition is the Conservatives’ nightmare, as it would throw them into opposition – a rather unusual role in past decades. With the SPD currently experiencing considerable tailwinds in the polls, this constellation has become more likely, though, appealing to the voters with Scholz as chancellor. It even seems that an SPD-led government has recently become as popular among voters as a CDU/CSU-led government (see Figure 3). However, there are doubts that the FDP would enthusiastically help the SPD or the Greens into the chancellery. Though not ruling out this option, the FDP chief said he cannot imagine what the Greens and the SPD could offer the FDP (ZDF, August 15). Indeed, the socio-ecological Greens and SPD and the liberal-conservative FDP have diametrically different stances in almost all key policy areas, notably fiscal and climate policy. Moreover, entering a traffic-light coalition with far reaching concessions to the left-leaning partners could be risky for the FDP. In 2013, they were punished by voters, not least for not having realized the promised tax cuts in the coalition with the CDU/CSU.

Figure 3: SPD-led government increasingly popular

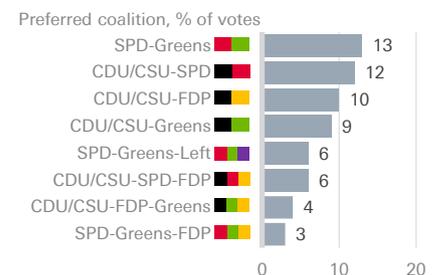


Source: ARD Deutschlandtrend, Deutsche Bank

What difference would a liberal government participation make?

Remaining fiscally conservative, improving business environment. In any of the outlined three-way combinations, we expect the Liberals to keep the Greens’ and/or SPD’s expansive and redistributive tendencies as well as the regulatory zeal at bay. It would be easier in a Jamaica coalition where two economically liberal forces could reign in the Greens. But in the traffic-light option the FDP would be able to sell its participation at a politically high price. The liberal imprint would be particularly visible on these issues: (1) Fiscal policy will remain on a conservative track with the debt brake unchanged and a balanced budget not out of sight. This also extends to the EU level with the upcoming debate of the Stability and Growth Pact reform being a first proof. Still, though expected to create more incentives for public investments, the FDP might consider alternative financing means like an off-budgetary investment fund as otherwise state investment plans lack funding. (2) Climate policy will probably have a stronger focus on market-based instruments (incl. some redistributive elements to cushion social costs) and use bans (if at all) only as a last resort. (3) The Liberals would provide additional impetus to advance digitalization and the modernization of the state. Unsurprisingly, a FDP government participation has become increasingly popular among the German business elite (FAZ Elite-Panel, August 18). But the general electorate remains rather sceptic about any three-way coalition (see Figure 4).

Figure 4: Black-green coalition becoming less popular



Source: FG Wahlen, Politbarometer, August 13

Bottom line. With the race still wide open and the likelihood of close election results for the “three Big” CDU/CSU, SPD and Greens, none of the parties wants to commit beforehand to potential coalition partners. Quite to the contrary: Senior CDU/CSU politicians have started to caution the electorate that a vote for the Liberals would increase the odds of a traffic light coalition with a more left-leaning policy course. As the hot phase of the so far dull election campaigns has just started – Merkel appeared with CDU chancellor candidate Laschet and CSU party leader Söder at a big event in Berlin last weekend - polls are not set in stone. Still, the likelihood of a three-way coalition government, and by that a novelty at the federal level, has definitely increased.

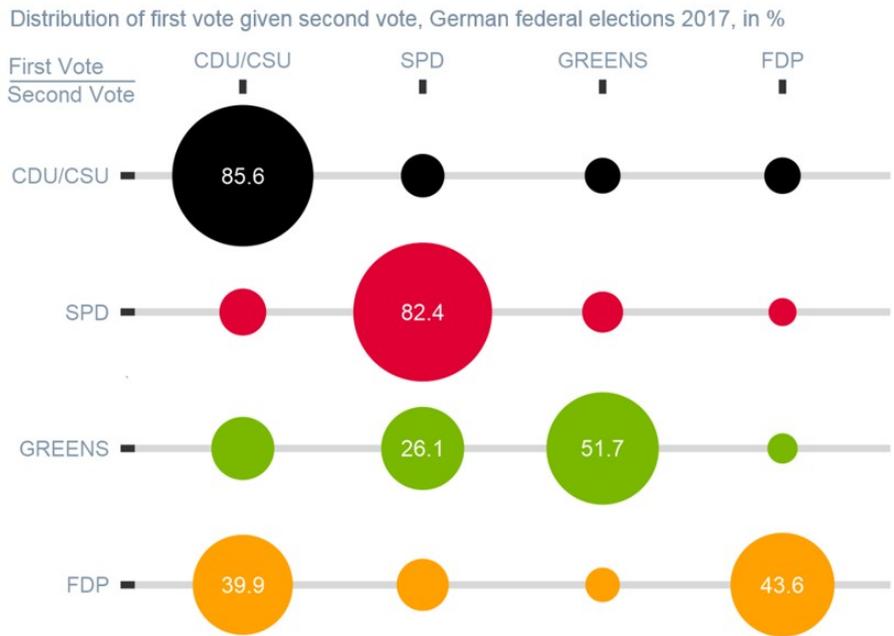
The secrets of strategic voting to shift parliamentary majorities

Strategic Voting is outstandingly popular among FDP voters. The complex



German election system with the vote being split between a candidate (first vote) and a party (second vote, determining the distribution of seats) offers the possibility of strategic voting (for more insights see our [analysis on German parliament XXL](#)). More than in any other party, the decision to split its vote is a common feature with the FDP voter: In the 2017 elections, only 43.6% of the FDP voters gave their first and second vote to their party, compared to 85.2% of the CDU voters (see Figure 5). The rationale underlying this electoral behavior is known as the “Wasted-Vote-Strategy”. If, for example, the preferred FDP candidate in a constituency does not have a realistic chance of winning a majority of votes, it is reasonable to cast the first vote for the second most preferred candidate with realistic odds, instead of wasting the vote by balloting for the unpromising FDP candidate. For a considerable fraction of FDP’s strategic voters, the CDU/CSU candidate usually seems to be the second-best choice.

Figure 5: Strategic voting is common among FDP voters



Source : Federal Returning Officer, Deutsche Bank

Strategic voting less promising this time. Against the current background of the FDP’s good polling, however, it would be less promising for FDP voters to split their votes as this would not optimize the hoped-for election result. More interesting is whether CDU/CSU supporters cast their second vote for the FDP. This electoral behavior would make sense only in a context where it increased the odds of a CDU/CSU-FDP coalition. This is not the case now: (1) The FDP seems to clearly pass the 5% threshold, thus there is no need to “lend” votes to the FDP to make sure it enters the Bundestag. (2) In light of the present coalition forecasts, “lending” votes to the FDP might even increase the odds of a traffic-light coalition. Thus, from a CDU/CSU point of view, this strategy would be an unfavorable choice in the current political environment.

We thank Ursula Walther and Matthias Lukosch for their valuable contribution.



Appendix 1

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