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A brief guide to the German election: Merkel's coalition crossroads

by **Matthew Elliott** and **Claudia Chwalisz**

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Cover image: Angela Merkel on the campaign trail. April 2017, Sierksdorf.

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1. INTRODUCTION

by **Matthew Elliott**, Senior Fellow, Legatum Institute and **Claudia Chwalisz**, Consultant, Populus

15th September 2017

With British voters choosing to leave the EU and Donald Trump's election as President, 2016 led to a widespread interest in understanding populism and its economic, cultural and political causes. Although we have not witnessed the same level of political shock in 2017, the Dutch election in March and the French election in May both showed that the ground continues to shift away from the mainstream centre-left and centre-right parties that have dominated European politics for decades.

As part of his Senior Fellowship at the Legatum Institute, Matthew published a guide to each of these elections, exploring the underlying factors contributing to the support of the populist left and right in the Netherlands and France. In this report, published on the eve of the Bundestag election, we try to answer another relevant question: why has populism failed to take off in Germany? The extreme forces on both sides of the political spectrum have remained at the fringe, despite Germany facing the same forces of global change as its neighbours. We explore to what extent this is down to Angela Merkel's leadership or historical and economic reasons.

In stark contrast to the exciting elections elsewhere earlier this year, in Germany, many have described 2017 as a 'sleepy' election campaign. While journalists have lamented the lack of stories to cover and opposition parties have campaigned fruitlessly, Angela Merkel spent the summer hiking and the last few weeks lying low. As with previous elections, this is her campaign strategy, embodied in one of the Christian Democratic Union (CDU)'s posters: "Enjoy the summer now, and make the right choice in the autumn," says a young woman lying carefree in a meadow. Merkel has essentially depoliticised German politics. Once again, her plan is working. The CDU has been polling comfortably at around 40 per cent for weeks; Merkel is by far the preferred Chancellor over the Social Democratic (SPD) candidate Martin Schulz.

Yet this does not mean that Germany is a perfect country with no problems to be solved. There are plenty of issues which could be at the fore—the struggles of the German car industry; the need for infrastructure upgrades; questions around big data relating to surveillance, control and manipulation; increasing pressure to deal with an ageing society; and what to do regarding sanctions against Turkey. Many of these have been largely ignored by the campaigns.

The biggest issue to have grabbed the headlines has been the diesel crisis. Five car companies are being investigated¹ by the European Union for antitrust violations. Moreover, the current CDU-SPD government failed to react after it was revealed that Volkswagen had cheated in emission tests. During the first week of August 2017, the government organised an emergency "diesel summit" between government officials and carmakers. This led to an agreement for the latter to install new software to lower some emissions as well as the creation of a new €1 billion fund to invest in non-polluting municipal transport. It is questionable whether this was the right outcome, or merely a sticking plaster.

Additionally, many European questions are being ignored, most notably Eurozone reform and refugee policy. Merkel's campaign team are perfectly aware of all the potential issues² that could harm her popularity, especially migration. On that front, they have been sending the message that

*Merkel will win
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the Chancellor is paying close attention to the situation in Italy. On her return from holiday, one of Merkel's first engagements was to meet with the chiefs of the United Nations' refugee agency UNHCR and the International Organisation for Migration.

At this stage, the race for Chancellor is over. Merkel will win a fourth term, though her power will be diluted as six parties are set to enter parliament. The interesting question is the direction in which Merkel chooses to take her next government, as she will not win enough support to govern on her own. A re-run of the CDU-SPD arrangement is not impossible. But neither party wants this. Given the current state of opinion polls, it would also leave the right-wing populist Alternative for Germany (AfD) as the strongest party in opposition with a powerful voice for the next four years—a situation similar to UKIP's pressure on the British government in 2015.

Otherwise, with the three main options being a 'black-yellow' coalition with the economically liberal Free Democrats (FDP), a 'black-green' coalition, or a 'Jamaica' coalition with both the FDP and Greens, the country could go in very different directions. Any will change Germany.

The choice of coalition partner reflects a wider cultural struggle for the country. Migration, foreign policy, environmental issues and labour market regulation are some of the key dividing lines between the Greens and the Free Democrats. The former is to the left and the latter is to the right of the CDU. It might be that Merkel does not much have much choice in the matter if the polls are correct: small fluctuations of one or two percentage points will make all the difference. This is why the election is more exciting than at first glance.

We hope you find this brief guide to the German election useful and, as ever, we would appreciate any feedback you might have.

2. THE GERMAN POLITICAL SYSTEM

On Sunday 24th September 2017, Germans will head to the polls to elect their new national parliament, the Bundestag, which in turn determines who will be the Chancellor. Campaigning officially began on 13th August (election rules mean parties cannot put up campaign posters or run ads until six weeks before the election).

Germany is a federal parliamentary republic. It has a multi-party system which has been largely dominated by the Christian Democratic Union (CDU) and the Social Democratic Party of Germany (SPD) since 1949. There are numerous smaller parties which have sometimes participated in governing coalitions, but which have never been a dominant partner.

2.1 PARLIAMENT

Federal legislative power lies in the Bundestag—the national parliament—and the Bundesrat—the representative body of the Länder, Germany's sixteen regional states. The Bundesrat is sometimes considered as the equivalent of an upper house of parliament, along the lines of the British House of Lords or the Canadian Senate, due to its similar functions. The political composition of the Bundesrat reflects that of the ruling majority or plurality in each state, and thus changes with elections in each state.

2.2 TIMING

Every four years, all members of the Bundestag are directly elected by the people of Germany, which in turn determines who will be the Chancellor. Elections always take place on a Sunday and are scheduled to take place this year on 24th September 2017.

On polling day, there will be media updates throughout the day regarding turnout. Exit polls will be announced at 6pm CET. The official result released by the German government is expected in the middle of the night (3.15am CET in 2013). Exit polls at the last federal election were remarkably accurate. One thing to watch will be the parties hovering near five per cent, as that is the minimum threshold a party needs to surpass in order to enter parliament.

2.3 ELIGIBILITY TO VOTE

Every German citizen aged 18 and above is eligible to vote, as long as they have lived in Germany for a minimum of three consecutive months within 25 years of the election. "Status Germans" who are refugees and expelled persons of German descent who have settled in Germany are also eligible to vote. There are 61.5 million eligible voters this year.



2.4 THE ELECTORAL SYSTEM: MIXED-MEMBER PROPORTIONAL REPRESENTATION

In the German Bundestag elections, every voter has two votes with distinct functions. The first vote is very similar to the UK's first-past-the-post system in that it allows electors to vote directly for a candidate to represent their local constituency (there are 299 constituencies in Germany). The candidate who receives the most votes wins the mandate. The second vote allows electors to vote for a party—a further 299 members of parliament are chosen in this way. Each party receives a share of the 598 seats proportionate to the number of second votes it has won.

There have been instances where a party has won more seats through the direct vote than it would get taking the second vote into account. Previously, the party was permitted to keep these "overhang" seats. However, rules introduced in 2008 favour the principle of proportionality. If this circumstance occurs, all parties are awarded extra seats in order for Bundestag ratios to accurately reflect the second votes cast.

Furthermore, to prevent the extent of fragmentation which exists in many proportional representation systems, there is a five per cent threshold in Germany. No party that wins less than five per cent of the vote nationally can enter parliament.

Above:
CDU campaign poster: "Enjoy the summer now, and make the right choice in the autumn."



Above: Example of a German ballot paper³

The left side is for the first vote, where voters choose a candidate from their local constituency. The right side is for the second vote, where voters choose a party with the top candidates on their state list for each party.

(Ballot paper for the 2005 federal elections
Source: Wikicommons)

2.5 FORMING A GOVERNMENT

Usually, no party wins enough seats to form a government on its own. An often lengthy coalition negotiation process ensues to determine who will be the Chancellor, which ministerial posts are held by which party, and a number of specific policies.

Typically the Chancellor is the leader of the largest party, but the official process involves the coalition nominating a Chancellor to the President, who then nominates the Chancellor to parliament. Parliament votes in the new Chancellor, who is subsequently appointed and sworn in by the President within a week. The Chancellor will propose ministers to the President, who appoints them and swears them in.

In 2013, the coalition negotiation between the CDU and the SPD lasted for around two and a half months—the government was sworn in on 17th December 2013.

3. PARTIES AND LEADERS

There are 42 parties running in the Bundestag election, although many of them are small and do not compete in all of the states. Currently the opinion polls indicate that there are six parties set to enter the Bundestag, with no party winning enough seats to govern on its own. The CDU (with support from their Bavarian sister party, the CSU), led by Angela Merkel, look set to become the largest bloc again. The key parties and leaders are in Table 3a.

The two largest parties, the CDU and the SPD, are comparable to the Conservatives and Labour in the UK. According to the Manifesto Project,⁴ the CDU's 2013 manifesto and the Conservatives' 2015 manifesto were very much aligned on the left-right scale, as were the SPD's and Labour's (Figure 3a).

Table 3a: Key political parties in Germany

PARTY	LEADER(S)	COLOUR	PAN EUROPEAN PARTY (UK MEMBERS OF EUROPEAN PARLIAMENT GROUP)	2013 RESULT (%)	2013 RESULT (NUMBER OF SEATS)
Christian Democratic Union (CDU)	Angela Merkel	Black	European People's Party (no UK party, since the Conservatives left in 2009)	41.5% (CDU/CSU)	311 (CDU/CSU)
Christian Social Union (CSU)	Horst Seehofer	Black	European People's Party (no UK party, since the Conservatives left in 2009)		
Social Democratic Party of Germany (SPD)	Martin Schulz	Red	Progressive Alliance of Socialists and Democrats (Labour)	25.7%	193
The Left (DL)	Katja Kipping and Bernd Riexinger	Red (Election coverage will often be in magenta to distinguish from the SPD)	European United Left/Nordic Green Left (Sinn Féin)	8.6%	64
Green Party (DG)	Simone Peter and Cem Özdemir	Green	Greens/European Free Alliance (Greens, SNP, Plaid Cymru)	8.4%	63
Free Democratic Party (FDP)	Christian Lindner	Yellow	Alliance of Liberals and Democrats for Europe (Liberal Democrats)	4.8%	–
Alternative for Germany (AfD)	Frauke Petry and Jörg Meuthen	Light blue	Split between the Europe of Freedom and Direct Democracy (UKIP) and Europe of Nations and Freedom (no UK party, but former UKIP MEP Janice Atkinson sits with them)	4.7%	–

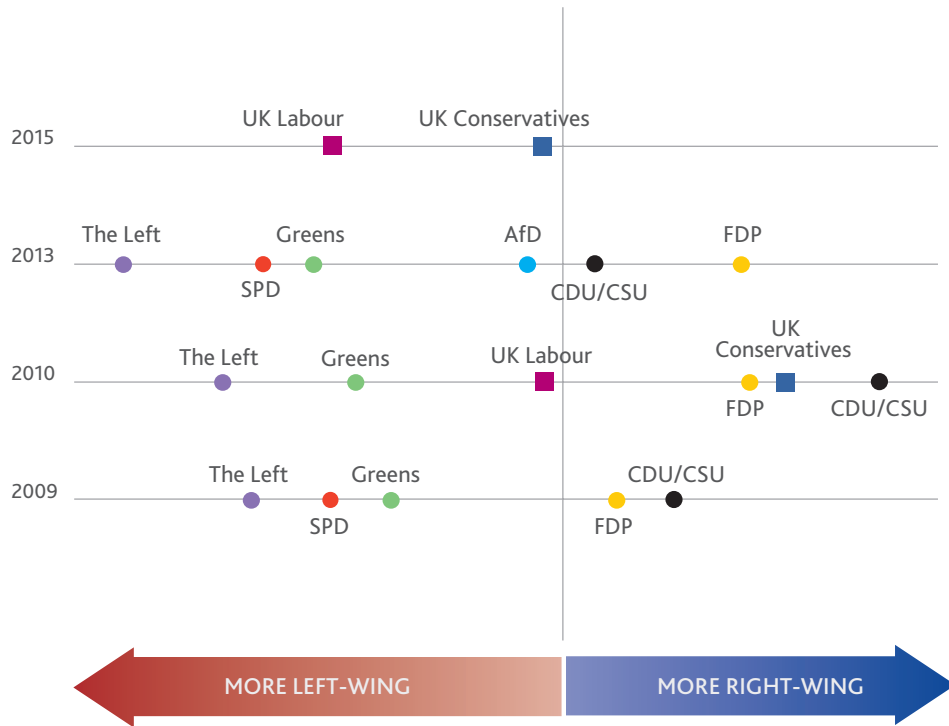


Figure 3a:

Key German and UK parties on a left-to-right scale for elections from 2009 in Germany to 2015 in the UK

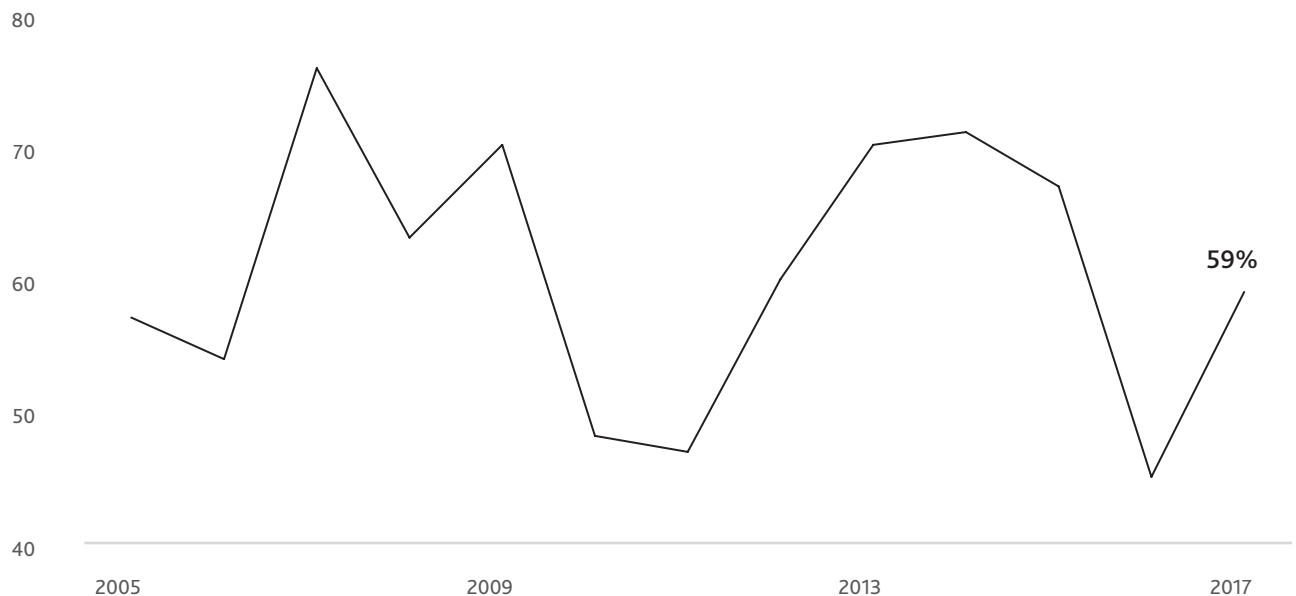
Source: Manifesto Project

3.1 CHRISTIAN DEMOCRATIC UNION (CDU), ANGELA MERKEL

The CDU was founded in West Germany in 1950 to unite Germany's Christian conservative voters. Thereafter, it became the country's most dominant political force in the post-war era, leading the government for 48 out of 68 years, together with its Bavarian sister party the CSU. As the Federal Republic's 'founding father,' CDU Chancellor Konrad Adenauer governed from 1949 to 1963, a period which has been called 'Germany's economic miracle'. This reputation as being a force of stability continued with another CDU Chancellor, Helmut Kohl, who drove reunification in 1990.

Current Chancellor Angela Merkel has been in power since 2005. It is worth remembering that although she began her campaign with a 21-point lead at the time, she did not end up storming to power: it was a close election and she had to form a 'grand coalition' with the SPD. In 2009, Merkel went into coalition with the liberal Free Democrats, returning to a coalition with the SPD in 2013.

During her 12 years in power, she has become one of the best-known, most trusted and most liked politicians in Germany. Not because of radical ideas, innovative policy or particularly bold



leadership. On the contrary, her pragmatism and tactical finesse have become defining features of her chancellery. Angela Merkel is the master of waiting and reacting carefully to events. Over time, she has rebranded the CDU into a modern, centrist party, and has artfully adopted some of the opposition parties' most popular ideas.

In 2011, following the Fukushima nuclear reactor disaster in Japan, Merkel undercut the Greens by promising to phase out atomic power. She received credit for implementing the Social Democrats' policies of a minimum wage and earlier retirement for people who started working young following their 2013 coalition negotiations. In 2015, her initial welcoming reaction to the refugee crisis won her more plaudits from the left than the right.

Today, the CDU's strong performance in opinion polls is often linked to her leadership—she is more popular than the party. Figure 3b highlights Merkel's strong approval ratings over time. With some fluctuations, falling below 50 per cent in 2010-11 and again in 2016, Merkel's current approval rating of 59 per cent is in line with when she first took office in 2005 (58 per cent).

The early dips can be attributed to disgruntlement following the effects of the financial crisis and the first European bailouts. However, the strength and stability of Germany's economy has kept Merkel popular at home. By the beginning of 2010, GDP had recovered to and surpassed pre-crisis

Figure 3b: Merkel's approval rating 2005-2017⁵

levels. The latest peaks in 2014-15 were at a time when Germany had balanced its budget for the first time in over 40 years, with record numbers of people in employment.

The 2015 refugee crisis coincides with the Chancellor's most recent dip below 50 per cent approval ratings. She was widely criticised at the time for her welcoming approach, which led to over one million refugees entering the country over a relatively short period of time. Another example of Merkel's pragmatic approach to politics, she toughened her stance from a moralistic welcome as soon as the backlash began. Since then, the government has increased border patrols, decreased social benefits for asylum seekers, facilitated a deal with Turkey to curtail the flow of refugees arriving to Europe, and introduced a burqa ban.

While the refugee crisis initially lost the CDU some support to the AfD, it also helped the party gain votes with young people. Historically, 18-24 year-olds preferred the Social Democrats and the Greens over conservative parties. But in 2013, Merkel won the largest share of votes among this age group, and is set to do the same again in 2017. This support has strengthened even further since Donald Trump came to power in the US, leaving Angela Merkel unexpectedly and unofficially as leader of the free world.

Merkel is always careful, however, never to make her defence of liberal values too overt. For instance, in June 2017, Merkel casually mentioned that she would not mind if a bill to legalise same-sex marriage came to the floor (the CDU had been blocking it in Bundestag committees for years, despite public opinion being in favour). One week later, the bill passed with the backing of three left-wing parties and one third of Christian Democrats. Merkel, despite privately favouring it, voted against the bill for the sake of her conservative critics. This example encapsulates Merkel's approach and helps explain her popularity: what should have been a huge victory for the left was in fact rather uneventful and made the Chancellor look open-minded. Now, during the election campaign, the issue is off the table. It is canny moves such as this, which weave together a mix of liberalism, pragmatism and a demonstration of strength and stability, which have led the CDU to become the most popular party among both young and old voters.⁶

Figure 3c: Key CDU manifesto pledges

- » Lowering the national unemployment rate from 5.5 per cent (2.5 million people) to three per cent by 2025.
- » Tax cuts for the middle class by raising the upper income tax bracket to €60,000, up from €52,000 currently. A modest increase compared to the SPD's proposal to raise this to €76,000 as well as increasing the top rate from 42 to 45 per cent. The CDU will only tax the top rate of 45 per cent on single people earning over €232,000.
- » Phasing out the "solidarity fee" for the former East Germany from 2020. This was a tax imposed in the wake of reunification to boost the East German economy. No clear date for when it would be phased out completely.
- » Increasing child allowance from €192 to €217 per month.
- » Raising tax abatement for dependent children from €7,356 to €8,820 per month.
- » Help for first-time property buyers. Families buying property for the first time will receive an extra state benefit of €1,200 per year per child.
- » Hiring an extra 15,000 police officers across Germany, including both state and federal police forces.
- » Partial dual nationality concessions. First-generation migrants and their children will be allowed to hold two passports, but following generations will have to choose a nationality.
- » Notably absent was any mention of a migration cap, a key point of tension between Merkel and her Bavarian ally, Horst Seehofer. However, at the unveiling at the manifesto, Merkel emphasised that there would be "no repeat" of the refugee crisis and promised that the CDU would pursue a law ensuring that skilled workers would be favoured.
- » Strengthening of Frontex, the European border and coast guard agency.
- » Aiming to close similar deals with North African countries as the EU-Turkey deal regarding migrants.
- » Creating a European Monetary Fund (EMF).

3.2 CHRISTIAN SOCIAL UNION (CSU), HORST SEEHOFER

A unique aspect of German politics is the relationship between the CSU and the CDU. The CSU is a separate conservative party in Bavaria, which often complements the CDU at the federal level, but can also be critical of its sister party, as recent tensions around the refugee crisis highlighted.

This distinct but symbiotic relationship came about following the Second World War. The majority of local and regional conservative parties came together to form the CDU in 1950, but the CSU chose to remain independent—a decision linked to Bavaria’s strong regional identity, which persists to this day. The CSU is now the dominant force in south eastern Germany, often polling over 50 per cent in Bavarian elections.

Although the CSU and CDU share many similarities, the CSU is the more conservative party, particularly on issues related to religion, law enforcement and immigration. One recent point of tension was over Germany’s open-door refugee policy in 2015. Horst Seehofer, the CSU’s chairman, criticised Merkel for pursuing a “rule of injustice” (*herrschaft des unrechts*)⁷—a loaded phrase which is usually only used to describe dictatorships or oppressive regimes. He also threatened to take legal action against Merkel’s refugee policy, although this never came to be.

The CSU has officially backed Merkel’s bid for a fourth term as Chancellor.

3.3 SOCIAL DEMOCRATIC PARTY OF GERMANY (SPD), MARTIN SCHULZ

The Social Democrats have a much longer history than the CDU. Founded in 1863 as the General German Workers’ Association, it later became the Social Democratic Party of Germany to represent the workers and trade unions. During the German empire, from 1871 to 1918, the SPD became a mass movement with over one million members, winning so much support that Otto von Bismarck felt compelled to ban the party through “Anti-Socialist Laws.” The result was that advocates of social democracy were watched and condemned, trade unions were outlawed, and socialist-leaning newspapers were closed.

The laws’ unintended consequence was also radicalisation, with great numbers adopting Marxist views, calling for the overthrow of capitalism. These tensions within the party led to a fracturing with reformist and revolutionary factions. During the 1920s and 1930s, the Weimar Republic, founded and supported mostly by Social Democrats, became politically unstable, leading to hyperinflation and mass unemployment. These economic conditions and weak democratic institutions helped lead to the rise of Adolf Hitler and the National Socialists. However, all of the SPD MPs voted against Hitler’s “Enabling Act of 1933”—the only political party to do so.

Following the Second World War, while conservatives came into power and began enacting economic reforms in West Germany, the SPD went through a transformation, revising its anti-capitalist standpoint to embrace the market economy.

The SPD led a ‘grand coalition’ with the CDU in 1966 under Chancellor Willy Brandt, who played a leading role in reconciliation with Eastern Europe. However, the party’s time in government was limited. CDU Chancellor Helmut Kohl became associated with reunification, leaving the SPD in opposition until Gerhard Schröder won in 1998. He is credited with transforming the Social Democrats



Above: Politician and candidate for chancellor Martin Schulz from the SPD at a campaign rally. February 2017, Lübeck.

Source: NordStock / Shutterstock.com

into a party of the “new middle,” appealing to white-collar, self-employed and working class voters. Many associate his labour market and welfare reforms, called Agenda 2010, with ‘the third way’ approach of Tony Blair, Bill Clinton and Wim Kok. While this was electorally successful at the time, it turned the SPD’s traditional working class voters against the party, leading to an identity crisis which has been present since Angela Merkel came to power in 2005.

The SPD joined the CDU as a junior coalition partner in 2005, and again in 2013. The party played an instrumental role in passing certain social reforms, notably introducing a minimum wage and lowering the retirement age for those who started working when they were young in 2015.

However, the perils of being a junior coalition partner mean that the CDU has often claimed credit for implementing SPD ideas. Moreover, the fact of being in government for eight of the past 12 years also makes it difficult for the SPD to distance itself from Merkel’s record or to present itself as a force for change. The Social Democrats also fail to offer a credible alternative government, as that would require forming a coalition with the anti-NATO, pro-Russia Hard Left.

In March 2017, leading up to the 2017 election, Martin Schulz was made the official party chief at an SPD conference which turned out to be a coronation ceremony. The party faithful gave him an unprecedented 100 per cent support. Journalists and pundits became excited at the prospect

of a competitive election; within weeks of his appointment, the SPD gained 10 per cent in the polls, inching ahead of the CDU. Was there a “Schulz effect” that could unseat Merkel and bring the SPD back into power? The answer seems to be a firm ‘no.’ The “Schulz effect” was short-lived, lacking the substance to sustain momentum.

So why the initial bounce in SPD support, followed by a sharp fall down to pre-Schulz levels? The 61-year-old former European Parliament president, while known within Eurocrat circles, was new to the German audience. He launched with promises of a positive and clean campaign, an emotional appeal for “justice, respect and dignity,” and a promise to offer an alternative to Merkel. At the time, she was still under attack for her refugee policies. Schulz’s main advantage was not being tarnished by the domestic political scene.

Initially, he had a two-pronged appeal. Schulz attracted young, liberal types with his pro-EU stance and clear positioning against nationalism and populism. At the same time, as details of his past were covered in the media, he was seen as a ‘man of the people.’ When he was young, he dropped out of high school, was depressed, unemployed, and narrowly escaped eviction before getting himself together and entering politics as the mayor of Würselen. He held the post for 11 years, becoming an MEP in 1994, head of the SPD MEPs, and later European Parliament president in 2012. That year, he received the Nobel Peace Prize on the EU’s behalf. It is therefore understandable that he generated some initial buzz.

But the “Schulz effect” was quickly put to the test with regional elections in Saarland, Schleswig-Holstein and North-Rhine Westphalia (NRW). The CDU won all of them, surprisingly unseating SPD governments in the latter two elections. The NRW poll on 14th May was especially damning given the SPD’s stronghold in

Figure 3g: Key SPD manifesto pledges

- » Free child care and a right to all-day child care.
- » Introduction of a ‘family bonus’ where parents would receive money if they reduced their working hours in order to take care of their families.
- » Free education from day care to an undergraduate degree or vocational training.
- » Better employee protection, including a “pact for a proper wage”.
- » Stable pension levels at the current 48 per cent and a cap on pension contributions at 22 per cent until 2030.
- » Ruling out raising the retirement age above 67.
- » Tax relief for small and medium incomes: abolishing the solidarity tax (introduced to support the east German states after reunification) for incomes up to €52,000 per year; ensuring that the top income tax rate of 42 per cent takes effect from €60,000 rather than the current €54,000; introducing a new mid-top income tax rate of 45 percent for incomes above €76,000; and raising the upper top income tax rate to 48 per cent for all incomes above €250,000.
- » Inscribing in the constitution an “obligation to invest”—an obligatory minimum percentage of the budget to be used for investments.
- » Introducing “opportunity accounts” which grant up to €20,000 for every adult entering the labour market to finance training, volunteering, caring, starting a business or taking a sabbatical.
- » 15,000 new jobs in law enforcement.
- » Better protection of the EU’s external borders while maintaining current asylum laws. Emphasis on introducing financial incentives from the European budget for member states who accept refugees.
- » Not to increase the defence budget to two per cent of GDP as per NATO rules.
- » Creation of a European Defence Union and European army.
- » Revision of the Dublin system to improve refugee distribution among EU member states.
- » Strengthening of Frontex, the European border and coast guard agency.
- » Creating a European Monetary Fund (EMF), developing an economic government for the Eurozone and a common finance budget.

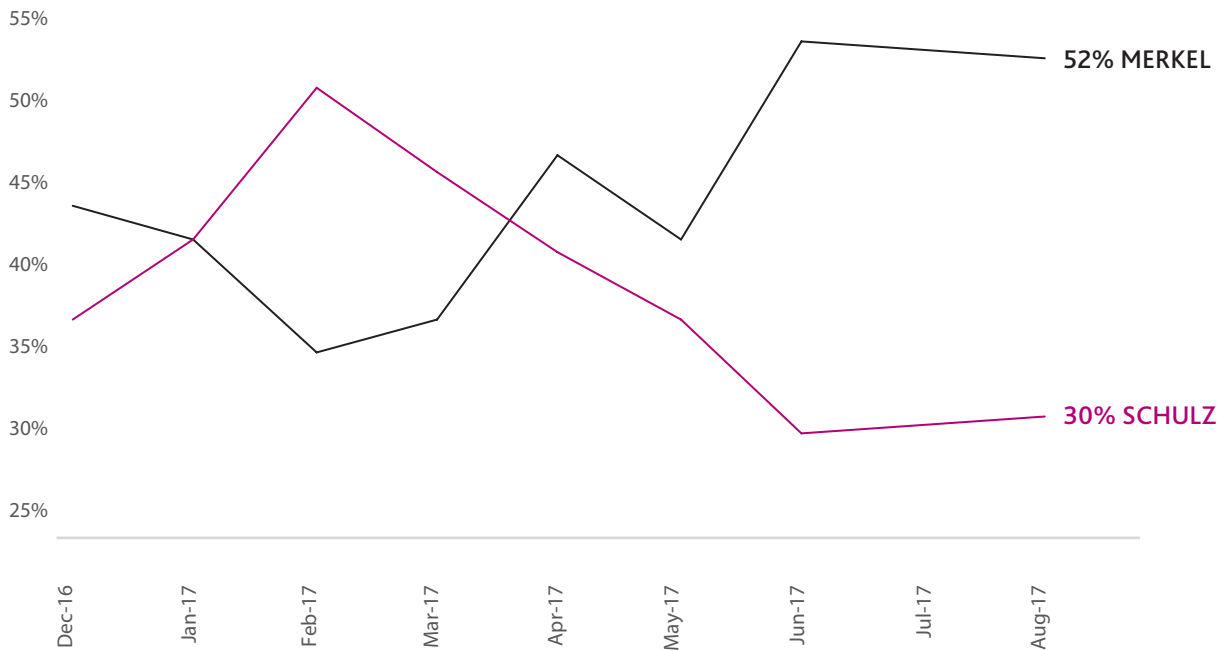


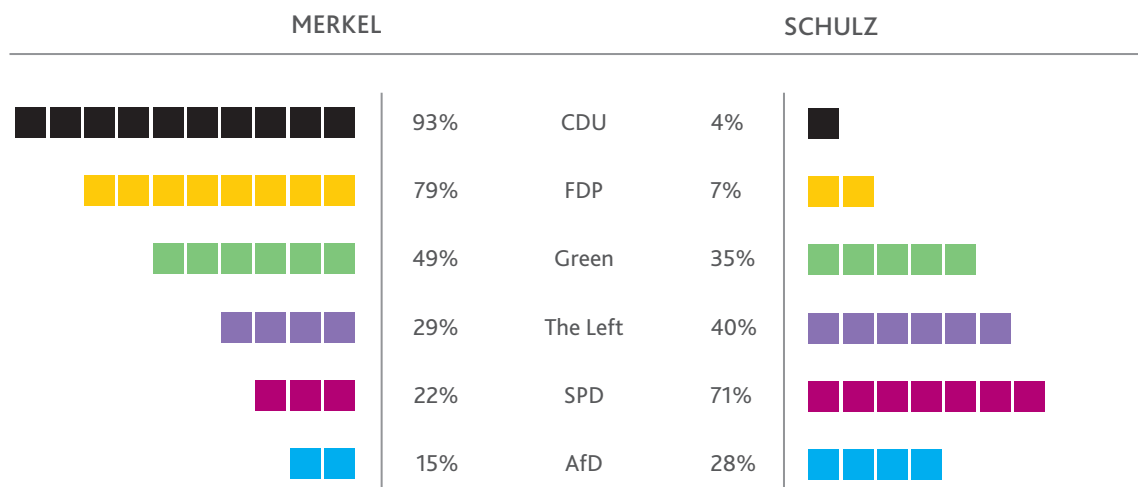
Figure 3d:
Merkel and Schulz
popularity trends⁹

*Q: Whom would you
vote for in a direct
election between
Angela Merkel and
Martin Schulz?*

the area. As Germany's most populous state with around 18 million people, this was seen as a test run for how September's federal race would go.

Moreover, as the SPD's election manifesto was revealed, the mask slipped as it became clear that a new leader did not necessarily mean new, innovative or bold ideas. With a slogan of "Time for more fairness" and a focus on social justice, education and investment, the party's election platform revealed an attachment to traditional tax and spend social democracy. All the spending was detailed ("free, free, free"), but the way to pay for it was notably vague.

At the same time, the SPD still struggles to find its way after the Hartz labour market reforms of the early 2000s. One of Schulz's core campaign aims is to 'correct' the Hartz reforms. For those on the left, these reforms spelled the end of Germany's social market economy and pushed millions into low wage jobs. On the other hand, many see them as the reason why Germany's economy is doing so well today, to the benefit of Merkel who is reaping the consequences of the hard work done before she came to power. While the impact of the Hartz reforms on Germany's economy are more nuanced⁸ than either narrative suggests, they have nonetheless toxified the SPD for some voters on the left.



Since his leadership was confirmed, the proportion of Germans who want to see Schulz as Chancellor has dropped from 41 per cent (at parity with Merkel) down to 29 per cent (compared to 53 per cent for Merkel). Even 22 per cent of SPD voters want to see Merkel as Chancellor over their own party chairman (Figure 3d-e). However, this does not mean that Schulz has given up. While Merkel spent the summer hiking, he was out campaigning. Although this has not garnered the SPD an increase in the opinion polls, Echobox's election tracker¹¹ shows that the party gained significant traction in online news articles read about it during this period—more so than any other party. While this petered out at the start of September, the SPD spiked again following the TV debate between Merkel and Schulz on 3 September (Figure 3f).

This does not necessarily mean that all news is good news, but it is worth noting, especially as both Brexit in 2016 and Jeremy Corbyn in the 2017 election were highly popular online, a fact not picked up on by traditional polls.

Figure 3e:
 Merkel vs. Schulz,
 preferred Chancellor
 by party¹⁰

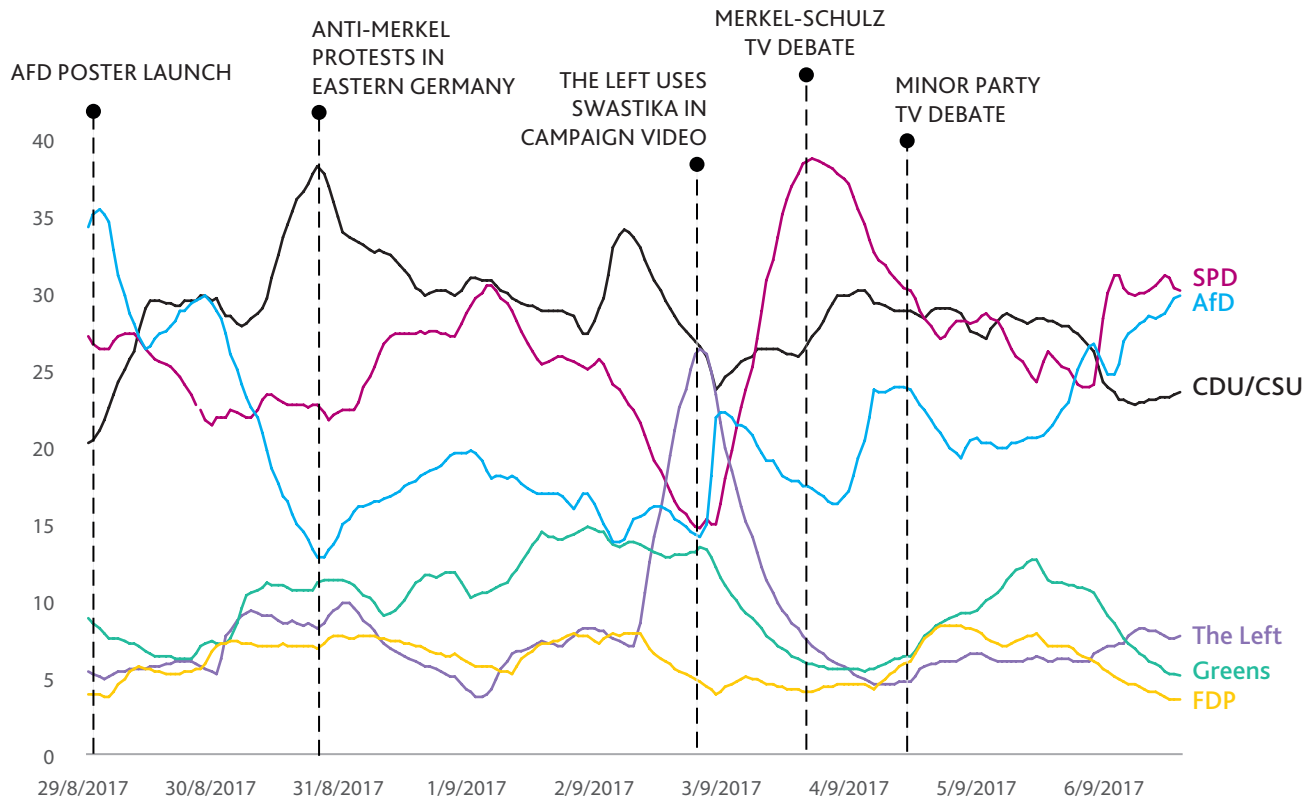


Figure 3f: Online news traffic about the key parties¹²

3.4 FREE DEMOCRATIC PARTY (FDP), CHRISTIAN LINDNER

The Free Democrats are a long-established classically liberal party with a commitment to open markets, personal freedom, and a small state with low taxes. They appeal mostly to the wealthier middle classes—skilled workers, entrepreneurs and self-employed professionals.

After being the junior coalition partner in Angela Merkel's 2009-2013 government, the FDP suffered a big blow in 2013, failing to surpass the five per cent threshold required to enter parliament. The party ended up without any seats in parliament for the first time since 1949. As Merkel once famously told David Cameron: "The little party [in a coalition] always gets smashed!"

Elected as Chairman in the wake of the 2013 defeat, the party is currently led by 38-year-old former businessman and former amateur racing car driver, Christian Lindner. A relatively young and photogenic character, he has almost doubled the FDP's support in opinion polls over the past few years. Most recently, the FDP performed strongly in regional elections in Schleswig-Holstein and North-Rhine Westphalia earlier this year.

The liberal party is known for its extreme view on fiscal policy—going beyond Wolfgang Schäuble’s balanced budget with an active redemption of government debt. At a time when investors are willing to pay to lend to the German government, such a view is controversial.

Among the German parties, the FDP holds the most favourable stance towards negotiations with the UK on Brexit, saying it would call for an amicable compromise in Brexit talks if it joins the CDU in a coalition government. The Free Democrats have equally demanded a special ‘Brexit cabinet’ in Berlin, which would safeguard Germany’s interests, particularly industrial and manufacturing companies.

On Europe, Lindner has made it clear he does not support President Macron’s proposals for greater Eurozone integration and a common Eurozone budget, stressing the need for fiscal discipline. The FDP leader has rejected the latest Greek bailout, calling instead for partial debt forgiveness on the condition that Greece is kicked out of the common currency.

When it comes to the biggest issue of the day, in the wake of the Volkswagen scandal, Lindner has suggested completely privatising VW.¹³ The state currently owns 20 per cent of the company. He has also called on softening the diesel emission rules and tolerating toxic nitrogen emissions.

On Russia, Lindner stirred some controversy in a *Hamburger Abendblatt* interview in July by saying that Crimea’s annexation should be seen as a “provisional fait accompli.”¹⁴

3.5 GREEN PARTY (DG), SIMONE PETER AND CEM ÖZDEMİR

The Green Party began as one of the most successful counterculture movements in post-war Germany, officially founded in 1980. It later brought together a range of social protest movements under one umbrella in 1993 under its current name, Alliance ‘90/The Greens. The party’s historical role is notable; it was the catalyst for green parties all over Europe.

Alongside their key platform of environmental protection, the Greens have always been against nuclear power and in favour of gay rights—marching in favour of these issues from their early days. Rather than electoral, the party’s success lies in their issues being adopted into mainstream politics over time.

The Greens were the junior coalition partner to Gerhard Schröder’s SPD government in 1998-2005. Since then, they reached peak backing at the ballot box in 2009, winning over 10 per cent of the vote for the first and only time at the federal level. Their support climbed to around 20 per cent in the wake of the 2011 Fukushima disaster. However, Angela Merkel’s reaction was to begin phasing out nuclear power entirely, taking away the Green Party’s key issue off the table.

Figure 3g: Key FDP manifesto pledges

- » Cutting taxes by €30bn over the 2017-21 term, funded by the forecast tax revenue increases.
- » Accelerate Germany’s modernisation by investing in digitalisation, high-speed broadband and technical education.
- » New points-based immigration system for skilled workers as a way of encouraging economic migrants to apply for work and discourage would-be refugees.
- » Multi-speed Europe that would permit Germany and other countries to accelerate integration.
- » Creation of a European Defence Union and a European army.
- » Revision of the Dublin system to improve refugee distribution among EU member states.
- » Creation of a European border force under the supervision of the European Parliament and strengthening of Frontex, the European border and coast guard agency.
- » Adapt EU treaties to allow countries to leave the Eurozone without leaving the EU.
- » Phasing out the European Stability Mechanism.

Today, the party belongs to coalition governments in 10 out of 16 states, although its performance in the most recent elections was underwhelming. Once the party of the young and rebellious, currently it relies on older, well-educated urban voters in major cities. Less than 10 per cent of its voters are now under 35.

The Greens are almost a victim of their own success; many of their core concerns about climate change and protecting the environment have been accepted and adopted by the other parties. While they still push an environmentalist agenda, they also focus on other issues such as inequality. The party wants to make Germany's asylum rules more generous, roll back some of the tougher policies Merkel put in place after the height of the refugee crisis, and revise immigration law to make it easier for foreigners to move to Germany.

The Greens are currently divided between the moderates, including the leaders, who are keen on getting the party back into coalition government, and those who believe the party should go back to its radical roots. The leaders have stressed that they would be open to going into a national coalition with Merkel's conservatives or a 'Jamaica' coalition which would also include the FDP.

3.6 THE LEFT (DIE LINKE; DL), KATJA KIPPING AND BERND RIEXINGER

The descendant of the Socialist Unity Party (SED) which ruled the East German GDR pre-reunification, the Left Party was officially founded in 2007. It was a merger between the SED's successor, the Party of Democratic Socialism (PDS), Labour and Social Justice—The Electoral Alternative (a movement of trade unionists in West Germany) and SPD members who were unhappy with Schröder's reforms.

In line with its history, the radical left party is much stronger in Eastern Germany with former communists. Its core vote comes from young protest voters who are disillusioned with the mainstream parties.

The Left has shown itself to be capable of governing as a coalition partner at the state level. The party has some appeal on domestic issues, but its foreign policy disqualifies it as a party of government federally, where it places ideological purity over pragmatism. Its views on abolishing NATO, getting rid of Germany's intelligence services, and refusing to condemn Russia's annexation of Crimea make the party an unsuitable coalition partner.

3.7 ALTERNATIVE FOR GERMANY (AFD), FRAUKE PETRY AND JÖRG MEUTHEN

Already elected in thirteen out of sixteen state parliaments, the AfD looks set to enter the national Bundestag for the first time after narrowly missing the five per cent threshold in 2013 (winning only 4.7 per cent).

The party began as a political group formed under the name *Electoral Alternative 2013* in 2012 by Alexander Gauland, a former state secretary in Hesse, Bernd Lucke, an economist, and Konrad Adam, a former editor of the *Frankfurter Allgemeine Zeitung*. Its purpose was to oppose the German government's policies regarding the Eurozone crisis and the continuation of the "unsustainable" currency area. They launched with a manifesto that was publicly supported by 68 prominent economists, journalists and business leaders.

*Already elected
in thirteen out
of sixteen state
parliaments...*

The political group later decided to found a new political party to contest the 2013 Bundestag elections—Alternative for Germany (AfD)—to campaign for abolishing the Euro. The AfD’s early supporters for the economics-driven anti-Euro party were the same prominent economists and others, as well as some former CDU members. Broadly, it was a party for middle-aged conservative men.

Although it failed to enter the Bundestag in 2013, the AfD went on to win parliamentary representation in the majority of the states and in the European Parliament.

The Eurosceptic party has since undergone a transformation into a more typical populist right-wing party seen in other parts of Europe. Its most visible founding figures, notably Bernd Lucke, have left the party. Its main focus is no longer on the Euro, but on the familiar topics of immigration, asylum and Islam. This could be compared to the Anti-Federalist League’s transformation into the United Kingdom Independence Party (UKIP), though within a much shortened timespan.

*Similar to the
National Front
in France, many
of its supporters
are young...*

According to the German populism expert, Kai Arzheimer, the AfD’s current voters are mostly former CDU supporters, but there are also some coming from socialist/left-wing parties. One third of AfD voters are formerly non-voters who are disillusioned with the established parties.¹⁵ Similarly to the National Front in France, many of its supporters are young—most are under 65. Without memories of war, they are proud to be German and are tired of apologising for their national history.¹⁶ Older voters tend to remain loyal to Merkel’s CDU. Like many other right-wing populist parties, the AfD has greater appeal among men than women.¹⁷ In other ways, however, there is not much difference between AfD voters and CDU and SPD voters. The populist party appeals to a mix of blue collar workers and the middle class, as well as a blend of educational and professional backgrounds.

4. POLLING OVERVIEW

In Germany, election polling guidelines mean that pollsters are not obliged to publish anything beyond the question asked, headline numbers, the number of respondents, the fieldwork dates and a statement about the poll's representativeness.¹⁸ This means that there is not the same amount of demographic and other data with which to analyse polling results as there is in the UK, France or other countries.

In the 2013 opinion polls, the CDU was in a position of strength with the next closest party, the SPD, far behind. The question at that time was whether the FDP and the AfD would surpass the five per cent threshold. Most pollsters correctly identified that the AfD would fail, but they all predicted the FDP would scrape through. It was a shock to see Merkel's former coalition partners fail to make it into parliament. Overall, however, the polls were rather accurate, with a mean absolute error of 1.4 percentage points.¹⁹

2017 has seen the traditional duopoly of the CDU and SPD as the parties with the largest amount of support. There has been no surge for smaller or new parties like we witnessed with the Green Left in the Netherlands and En Marche! in France earlier this year.

What is unprecedented this time is that it seems likely that six parties will enter the Bundestag, meaning support amongst them is diluted and potential coalition formations will be highly dependent on small fluctuations in support on polling day.

As discussed in detail in the previous section, the six parties set to enter parliament are the: Conservative Democratic Union (CDU, with support from the Christian Social Union, CSU); Social Democratic Party (SPD); Green Party (GP); The Left (DL); Free Democratic Party (FDP); and Alternative for Germany (AfD). The analysis in this section will be limited to discussing these six key parties.

4.1 CAMPAIGN TRENDS

Although this election has been described by some commentators as 'quiet' or 'sleepy,' there are nonetheless a number of key trends worth noting:

- **The CDU's stable lead during the campaign:**

Angela Merkel's party has consistently led the polls at around 38 per cent, fluctuating within the small margin of 35 to 40 per cent since May 2017. Her lead over the SPD has swung between 11 and 18 points during this time. The uneventful TV debate with Martin Schulz—her challenger's last chance—solidified her standing. Bar anything exceptional happening which would cause a repeat of 2005, when Merkel's initial 21-point lead evaporated over the last few weeks of the campaign, it looks like Germany will have another four years with '*Oma*' (Grandma) at the helm.



- **The SPD's campaigning noticed online:**

While Merkel was hiking, Martin Schulz spent the summer in full campaign mode. Although this has had no effect on opinion polls, it did lead to a substantial increase in online articles being read about the SPD chairman according to the Echobox German Election Tracker, which monitors the amount of online news traffic generated by all the political parties in real time.²⁰ Online traffic about the SPD jumped during and after the TV debate as well, despite polls declaring Merkel the winner (see Figure 3f).

- **German voters are more undecided than ever:**

As of the end of August, almost one half (46 per cent) of German voters had yet to make up their minds about who to vote for on 24th September, according to an Allensbach poll for the *Frankfurter Allgemeine Zeitung*.²¹ This is the highest share of undecided voters so close to polling day for the past 20 years. For comparison, in 2013 only one third of voters had not yet decided at this point in the campaign, which was almost twice as many as in the 2002 election.²²

Figure 4a:
Polling overview
(All polls from
30/04/2017 to
06/09/2017)

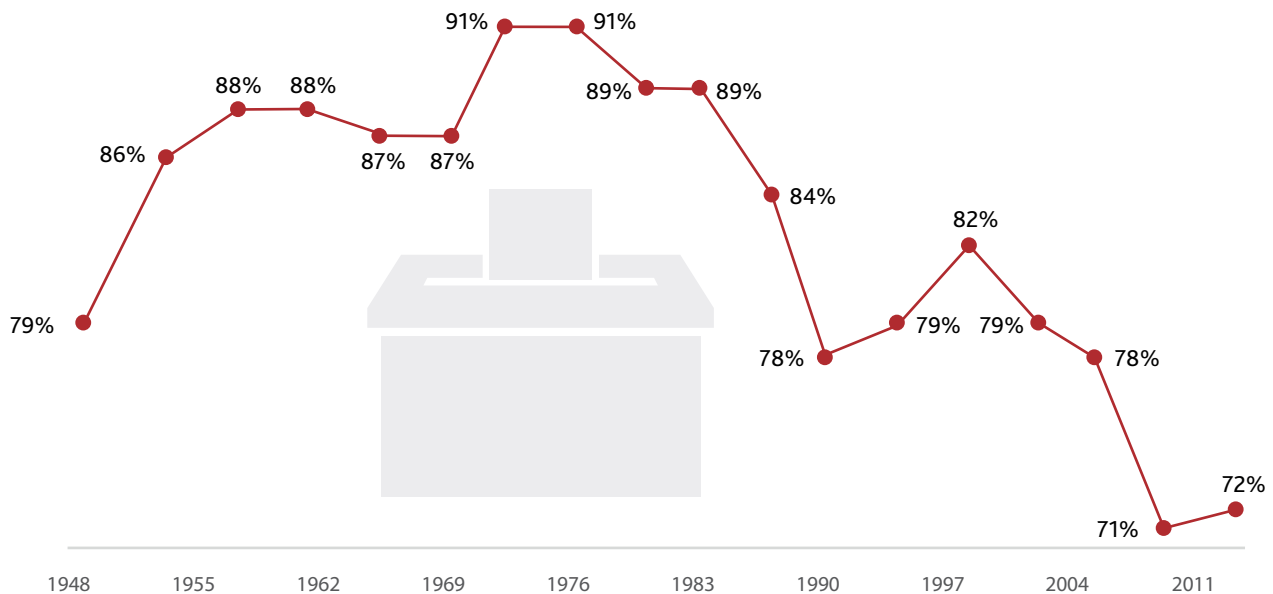


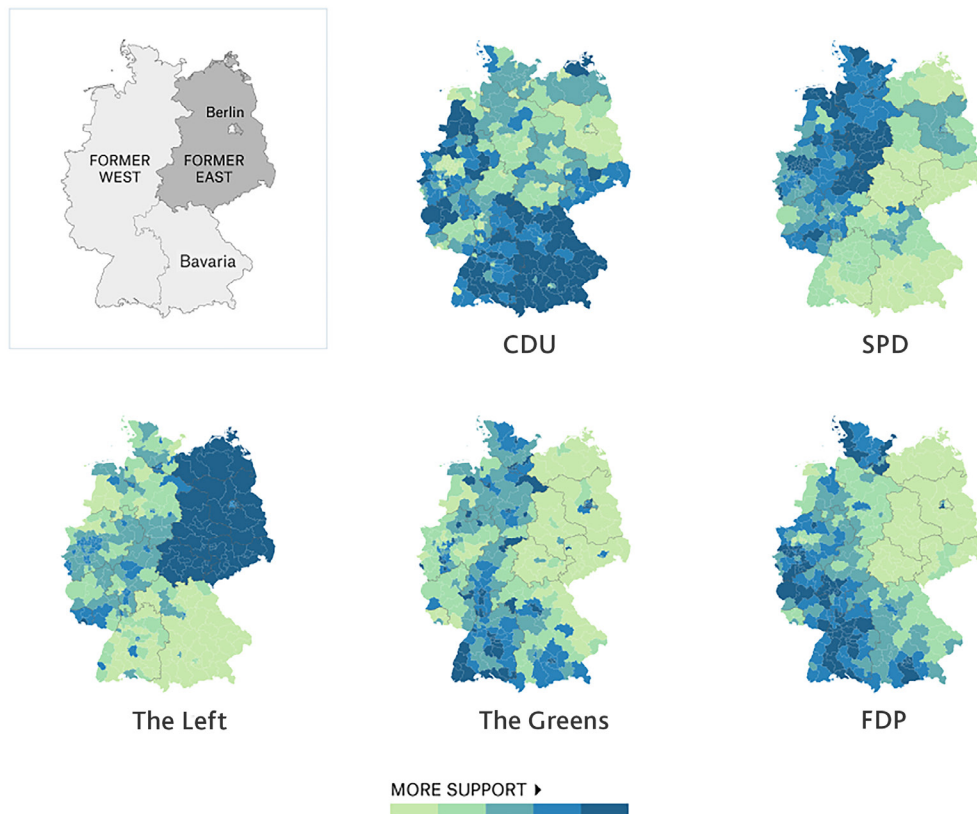
Figure 4b: Voter turnout in Germany, 1949 to 2013²⁴

- **The AfD's likely entry into parliament:**

Although its support has fallen since the height of the refugee crisis in 2015, the AfD has been consistently polling around eight per cent and looks likely to keep this up on polling day. While the AfD's support has come from a mix of former CDU, FDP, left-wing and non-voters, a high score for the AfD will impact on Merkel most negatively, as it will make her preferred coalition option with only one of the smaller parties (FDP or Greens) less likely. It will also be the first time that a far right party enters parliament since the Nazis.

- **Will turnout fall again?**

Turnout levels at federal elections have been consistently falling. From 1998, turnout fell from 82.2 per cent down to 71.5 per cent in 2013. If this trend continues, there is a good chance that there will be more non-voters than voters for the largest party, weakening the government's legitimacy. It is unclear whether turnout is going down due to a feeling that the result is a done deal or rather to disillusionment with all of the parties. A recent poll found that 45 per cent of voters consider the outcome of the election to be already decided—higher than it has ever been since reunification.²³



EAST AND WEST: REGIONAL DIVIDES STILL PRONOUNCED

Despite the decades that have passed since reunification, voting patterns along regional lines are stark (Figures 4c and 4d).

The CDU does best in south western Germany; the party's reliance on the CSU is apparent considering the size of Bavaria and its dominance there. The SPD does best in north western Germany, the country's industrial heartland. The far left clearly dominates in what was former East Germany, except for the dot representing Berlin. There, the Greens are strong, as well as in south western Baden-Württemberg, where they lead the state parliament. The FDP competes with the CDU in the south west and with the SPD in the north west; its support is concentrated in some of the wealthiest parts of the country.

Figure 4c: German party support by region in 2013²⁵

The colours represent quintiles of the party vote share, calculated for each party individually. CDU includes the CSU.

Sources: FiveThirtyEight.
Wahlatlas, Der
Bundswahlleiter

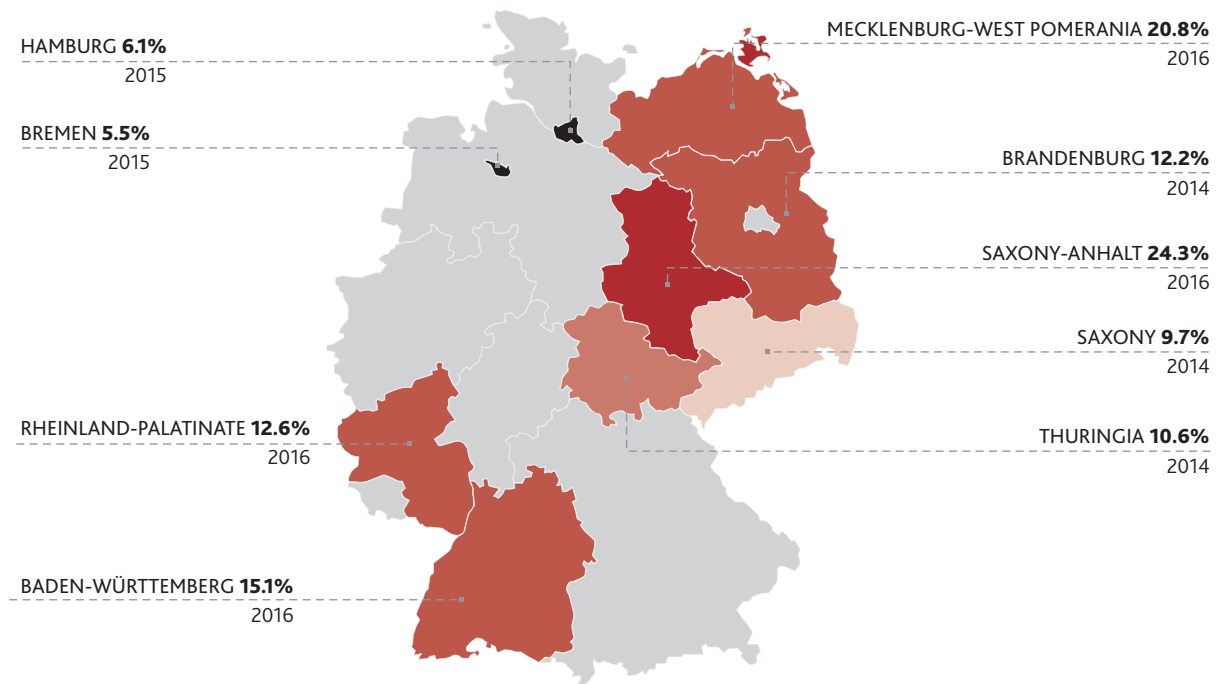


Figure 4d: AfD support in German regional elections, 2014-2016²⁶

Share of the vote received by Alternative for Germany (AfD) in regional elections*

*Elections from 2014. 2015 or 2016 dependent on region.

Source: Regional governments, ARD

As it is a newer party, the AfD's support is more clearly measured by considering its vote share in regional elections from 2014-2016 (Figure 4d). The heart of its support is in former East Germany, with some of the poorer parts of the country. Its support in the south west has been largely linked to the refugee crisis, given the proximity to the Austrian border.

5. COALITION POSSIBILITIES AND IMPLICATIONS

*The election
is a race for
third place...*

During her three terms as Chancellor thus far, Merkel's CDU/CSU has always had a coalition partner:

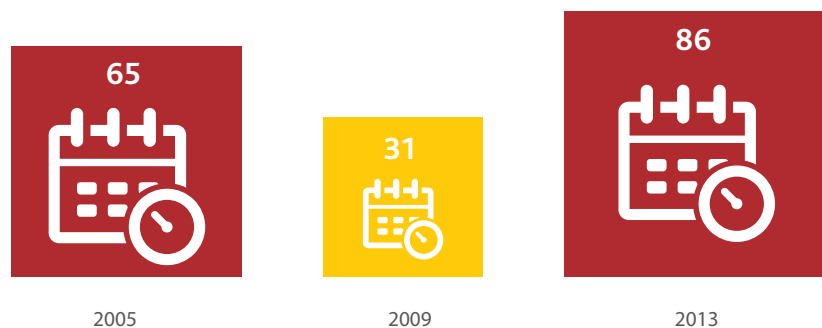
- » 2005-2009: SPD
- » 2009-2013: FDP
- » 2013-2017: SPD

This time around, Angela Merkel has ruled out coalitions with AfD and The Left, leaving her with the FDP, the Greens and the SPD as possible allies. The election is a race for third place, as the smaller parties vie for the coalition kingmaker position.

After failing to make it into parliament in 2013, the FDP long for a return to a centre-right alliance at the heart of government. It looks increasingly unlikely that the CDU and FDP will win enough votes to be able to govern on their own, however.

A 'Jamaica' coalition with the CDU, FDP and the Greens has thus been floated. But the two smaller parties are at odds on issues such as foreign policy, the environment, labour reforms, and the future of the EU. What unites them is a desire to govern: the question is whether this is enough to encourage compromise.

Figure 5a. Number of days for coalition negotiations



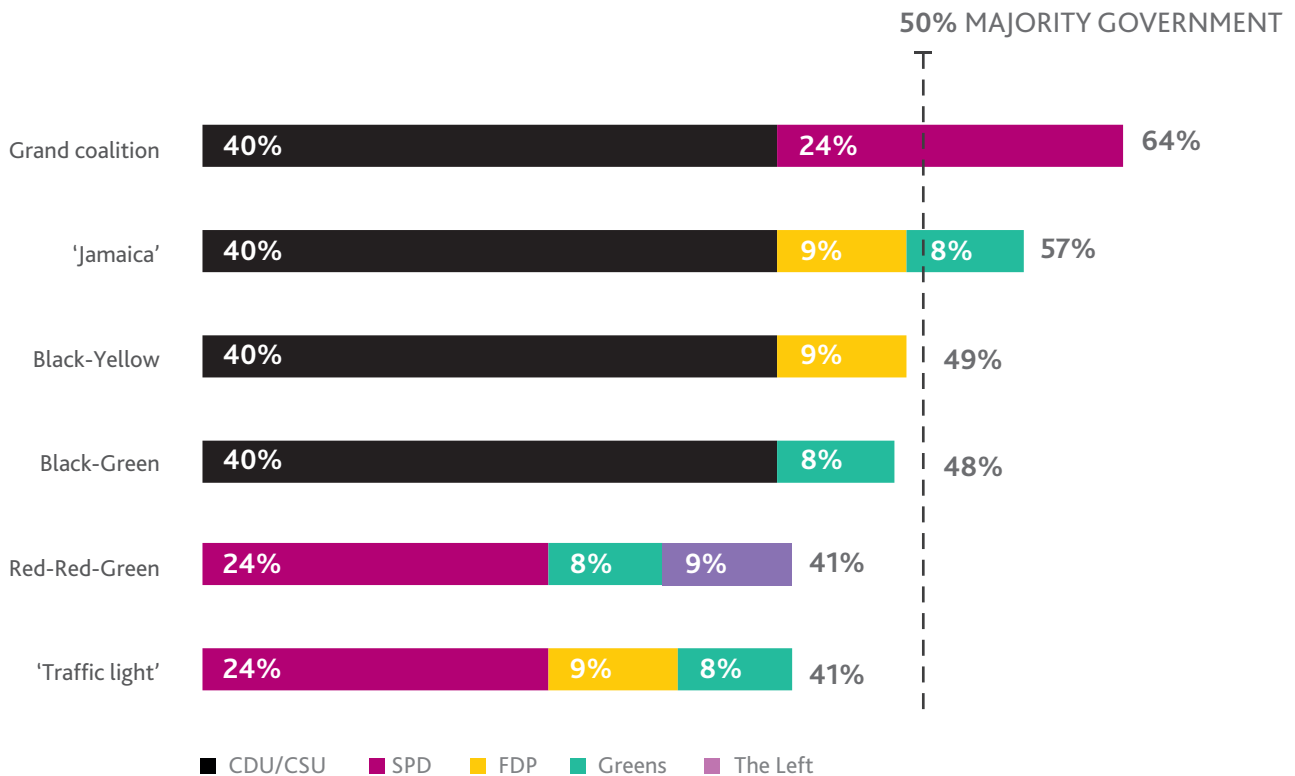


Figure 5b: Possible coalitions on recent polling (Estimated per cent share of 2017 Bundestag seats based on latest polls at time of publication)²⁷

Based on weighted average of seven pollsters' latest polls as of 6 September 2017

While the possibility of a Black-Green coalition was suggested earlier in the campaigning period, the Greens have lost support since the start of the year and now look set to win the smallest number of seats amongst the parties that make it into parliament. At the same time, a small fluctuation of a few percentage points on polling day could edge the two parties just over the 50 per cent mark. Black-Green coalitions govern in two of Germany's states, but this would be a first at the federal level.

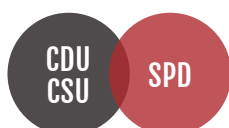
As for the status quo, SPD Foreign Minister Sigmar Gabriel talked down another grand coalition with the CDU. The party has suffered in the same way smaller coalition parties do. It is difficult to call for change when you have been at the helm of coalition government for eight of the past twelve years. Gabriel remained ambiguous about a possibility of forming a coalition with the Greens and The Left (an 'R2G' alliance). However, it is unlikely that the 'R2G' parties will win enough votes between them for this to be viable. The suggestion may even cost the SPD votes with moderates.

Some commentators have discussed a 'traffic light' coalition between the SPD, the FDP and the Greens. But again, for reasons to do with electoral viability and the clash between the FDP and Greens detailed in the 'Jamaica' coalition option, it is doubtful this will be a real option.

The last, but improbable, possibility would be for Merkel to form a minority government—a first for Germany. This would leave her reliant on the SPD, the FDP and the Greens on an ad hoc basis. Merkel could also theoretically form a minority coalition with either the FDP or the Greens.

However, a German preference for stability means that another round of grand coalition government is looking increasingly as the most likely outcome.

5.1 POTENTIAL COALITIONS IN ORDER OF PROBABILITY



Grand coalition

Another grand coalition between the CDU/CSU and the SPD is possible and the only option that is firmly on the table in terms of electoral viability.

While Merkel has left this option open, the SPD is less keen. SPD Foreign Minister Sigmar Gabriel has ruled it out as the party wants to present its own candidate for Chancellor.

Although another grand coalition remains unlikely for this reason, it is nonetheless a possibility in case the electoral maths make it impossible for any other coalition formation to take place. Such a situation would make it even more difficult for the SPD to put forth a 'change' candidate in 2021—another four years of the CDU gaining credit for implementing any of the SPD's ideas, as is what happened with the national minimum wage and pension reforms during this parliament.

For the future of the EU, however, this seems to be the only possibility which would give Merkel the flexibility for more comprehensive Eurozone reform. Both Schulz and Gabriel are supportive of President Macron's approach.²⁸ At the same time, in this scenario it is likely that the strongest opposition party will be the far right AfD, which would be a critical voice in parliament, alongside the FDP and the CSU on some issues.

On Brexit, Schulz's European Parliament background mean he is more likely to want to teach the UK a lesson. Though again, it is not clear he would be willing to put the issue at the top of his priorities in coalition negotiations above education and social policies.



'Jamaica'

Many commentators have discussed the potential of an unprecedented 'Jamaica' coalition featuring the CDU/CSU, the FDP and the Greens. Given the constant fluctuations of one or two points for each of these parties in the polls, small changes could leave this as the only other option on the table besides a grand coalition.

Negotiations would be difficult, as the FDP and the Greens fundamentally disagree on many issues, notably to do with the environment, foreign policy and labour reform. During the minor parties debate on 4th September, FDP leader Christian Lindner and Green co-leader Cem Özdemir notably clashed over migration. The former argued that asylum seekers need to be deported more quickly, criticising the Greens' position of opposing deportations. The latter defended the party's position by saying that the "wrong people" are being deported while dangerous people such as the Berlin Christmas attacker avoided supervision. Their views on the future of the EU and Brexit are also

at opposite ends: while the FDP defends fiscal discipline at EU level, the Greens are favourable to Macron's reform proposals. Moreover, in an interview on 8th September, Lindner said that he "can't imagine" a three-way coalition with the Greens."

At the same time, both parties are desperate to be in government, so there could be a chance that they find the middle ground to compromise: their party leaders all tend towards moderation rather than the extremes. It may have been strategic that during the TV debate, Lindner and Özdemir agreed on certain issues—such as raising wages for traditional female occupations—and used the informal second-person form of address.



Black-yellow

A 'black-yellow' (CDU/CSU-FDP) coalition as in 2009-2013 would be a natural centre-right alliance. Both parties would like this, but it depends on whether they win enough seats together for it to be viable. Current polling suggests it is within the realms of possibility, but will be a close call.

This scenario would make it difficult for Merkel to move ahead with further EU integration. The FDP has made it clear it does not support French President Emmanuel Macron's calls for a new Eurozone budget, citing the need for fiscal discipline.

The weakness of this government (barely surpassing the majority mark) will also exacerbate the CDU and CSU's internal tensions around immigration and asylum.

Regarding Brexit, the FDP has shown itself to be more favourable to ensuring the Brits get a good deal than any of the other parties. Michael Theurer, FDP MEP and Brexit Spokesman in the EU has called for the German government to create a special Brexit cabinet for the EU negotiations and warned that Germany would be mistaken to humiliate Britain with a "crash-Brexit" deal.²⁹ However, the FDP will nonetheless be the junior coalition partner, and it is questionable whether the party would be willing to use its bargaining chips on Brexit over its more salient domestic policies.



Black-Green

While on current polls, this looks like one of the least likely scenarios, a small fluctuation could put the CDU/CSU and Greens just over the edge on 24th September.

The party's moderate co-leaders have made it clear that they are open to this possibility; their aim is to bring the Greens back into coalition government.

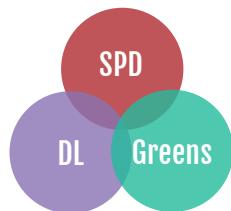
However, this puts them at odds with the party's membership, which sees itself as left-wing and is hostile to the conservatives. The irony is that the leadership's open desire for power might hurt the party's support to the extent that it denies them this opportunity.

If, however, a Black-Green coalition came to be, this would pull Germany in a completely different direction to the liberal coalition outlined above. The Greens would push the government further on environmental policies: urging an end to approvals for new cars with an internal combustion engine by 2030 and the immediate closure of 20 coal-fired power plants.

On Europe and migration, the Greens are also the most extreme on loosening immigration and asylum policies. This might allow Merkel to soften her position by saying her hands are tied. On

the other hand, the more plausible reaction is an internal government conflict between the more right-wing CSU and the Greens. The Greens have a federalist view on the future of the EU, which once again clashes with the CSU and CDU's intergovernmental approach.

Regarding Brexit, the Greens had previously called on the government to fast-track applications of Britons wanting to apply for German citizenship. At the time, this also sparked a row with the CSU, which called the proposal "treasonous."³⁰ The Greens are against an 'exit à la carte', where Britain can pick and choose which aspects of the EU membership it wants to keep and adopt; unity with the other EU countries is the priority.



'R2G' (Two reds and a green)

The last coalition option discussed here is the least likely as the stars would need to be aligned for the SPD, the Greens and the Left Party to win enough seats together. The SPD has floated the idea, refusing to rule out working with the Left—a point of controversy given their far left views, particularly on foreign policy. Making this suggestion may also have been a way for the SPD to show that they are still in the game rather than a serious proposition.

6. WHY HAS POPULISM FAILED TO TAKE OFF IN GERMANY?

Unlike in many of its European neighbours, Germany has resisted the populist revolt.

What do we mean by populism? There is a mounting academic consensus that populism is a form of rhetoric which claims that legitimate authority flows from 'the people' ('us') rather than the establishment elite ('them'). It is not, in itself, an ideology such as liberalism, socialism or communism. Rather it is a strategy used by politicians of all political stripes; it is largely void of concrete public policy prescriptions about the economy, foreign policy or welfare. The unifying thread between all populists is the moral claim of democratic legitimacy and the proposal of democratic or constitutional reforms to give more power to 'the people'.³¹

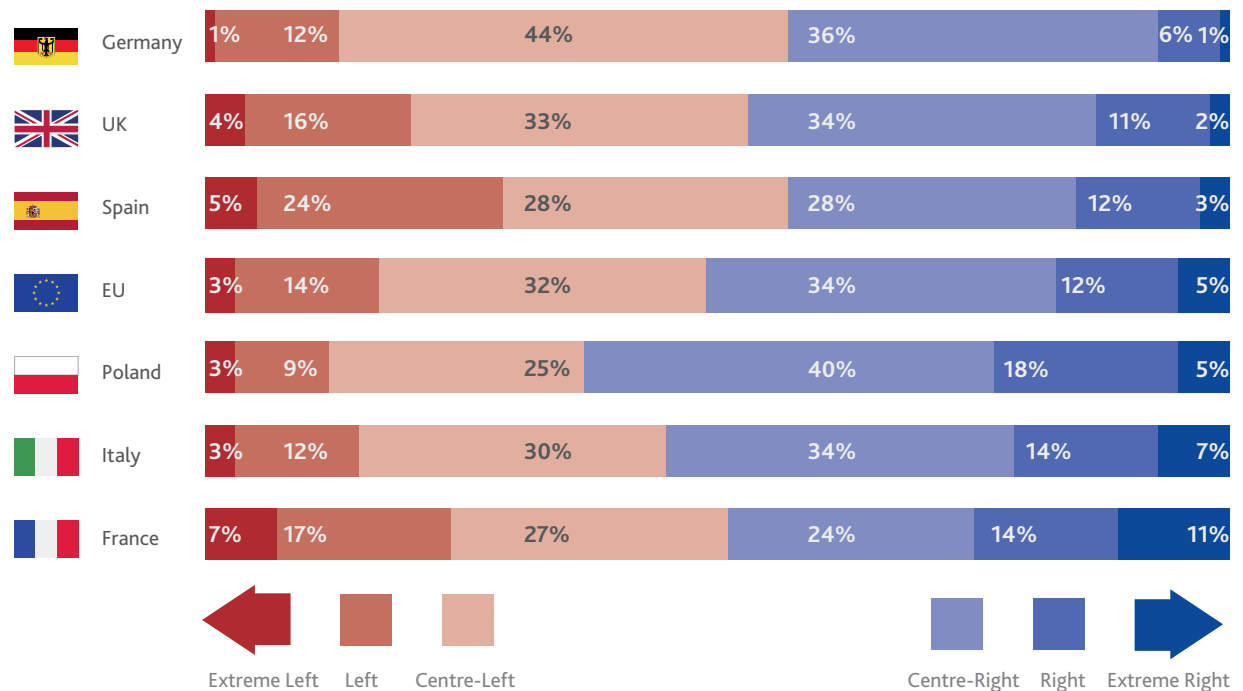
In Germany, Alternative for Germany (AfD) and the Left Party are both considered as populist parties. Both have some support, mostly in regional pockets of the country, but neither party looks likely to win more than ten per cent of the votes on 24th September. Compared to all other EU countries, Germany has the smallest proportion of people that identify on either the extreme right or left (2 per cent in total) and the highest proportion of centrists (80 per cent) (Figure 6a).³² This section explores why this is the case, looking at the historical, economic, social and political factors at play.

6.1 HISTORICAL MEMORY: A COUNTRY CONSCIOUS OF ITS PAST

While it may be obvious, no section about populism in Germany would be complete without mentioning its history of Nazism, on the one hand, and communism on the other.

In terms of the far right, no party has made significant gains since the 1940s until the AfD. That is not to say that there have not been any far right parties in between. The neo-Nazi National Democratic Party of Germany (NPD) was founded in 1964, though it has never surpassed the five per cent threshold at Bundestag elections. In 2001, the federal government attempted to have the Federal Constitutional Court ban the NPD, though this was rejected due to uncertainties regarding undercover Secret Service agents who had infiltrated the party. There were repeated attempts to ban the NPD in 2011, 2012 and 2016. This latest request was rejected by the Federal Constitutional Court in January 2017, due more to the party's political insignificance than anything else. The Court acknowledged that the NPD's manifesto is indeed anticonstitutional and suggested that such parties should not receive state grants for funding to further their causes.³⁴

More recently, the Patriotic Europeans Against the Islamisation of the West (PEGIDA) movement was born in response to the refugee crisis in 2015. The anti-immigration and anti-Islam group held rallies gathering thousands, mostly in eastern Germany, over a few years. In July 2016, the head of PEGIDA, Lutz Bachmann, founded a political party called the Popular Party for Freedom and Direct Democracy (FDDV), which was intended to join forces with the AfD in this year's Bundestag election.³⁵ However, since then, the movement has petered out and the FDDV is not running.



The far right Alternative for Germany's history and political stances are already detailed in section three about the parties. It was polling much higher (around 15-20 per cent) at the height of the refugee crisis and throughout 2016, though has fallen back down to around eight to ten per cent support in the polls as election day approaches.

There are a few reasons for this decline. One is that Merkel's tightened stance on immigration and refugee policies took some of the wind from AfD's sails in 2017. While this hurt the AfD electorally, it can also be seen as a victory for the far right party, which has helped reshape the political landscape and move the CDU to the right.

The AfD has also been prone to infighting between the moderate and extreme wings.³⁶ Moreover, there has been a strong anti-AfD message from local businesses and politicians in the areas where the party is doing best. Some might argue that this condemnation fuels the AfD's support, but it also sends a message regarding societal tolerance for the far right.

On the other side of the political spectrum, the Left Party occupies the far left populist space. As is typical, the party has no real programme or political philosophy, only platforms for specific elections.

Figure 6a:
Personal positioning
on the left-right
political spectrum³³

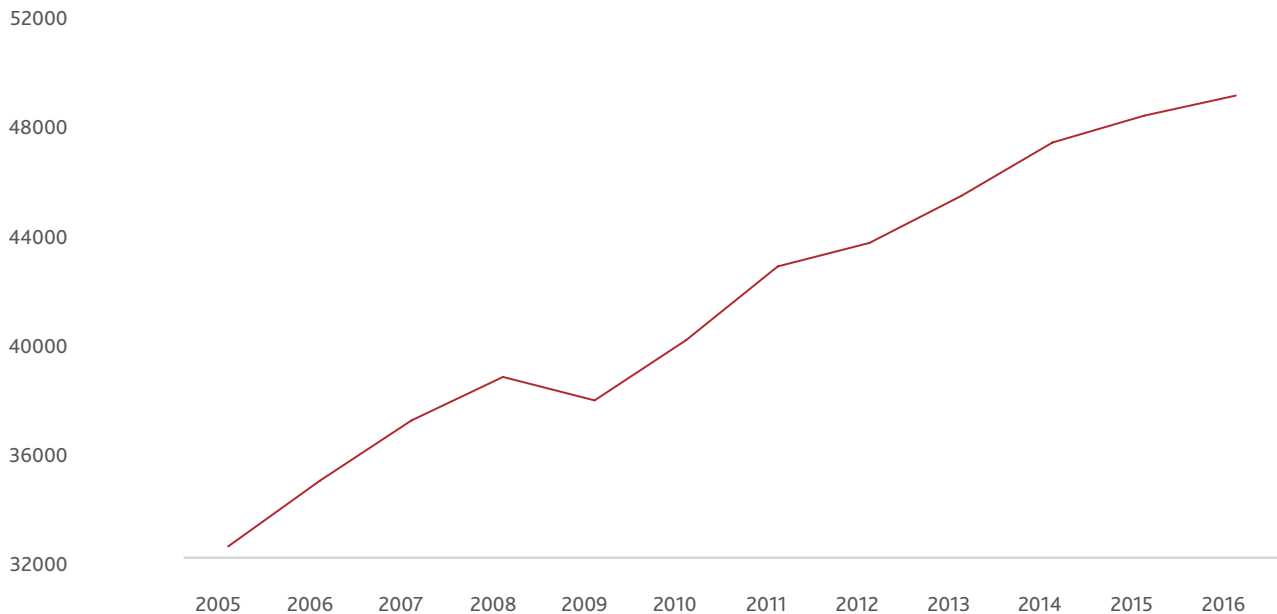


Figure 6b:
German GDP,
2005-16
(Total, US dollars/
capita, 2016)⁴⁰

It is worth noting that the far left did ride a wave of popularity in the mid- to late-2000s following Gerhard Schröder's economic reforms, which turned parts of the SPD and trade unions against the centre-left. With a charismatic leader at the time, Oskar Lafontaine, who had resigned from the Schröder government to become one of the SPD's greatest critics, he managed to bring together many of the factions on the far left together to form one Left party (previously split between the Party for Democratic Socialism and the Electoral Alternative for Work and Social Justice). At the time, Lafontaine stirred up passions with calls for a minimum wage and immediate withdrawal from Afghanistan.³⁷

However, with an ultimate aim of overthrowing capitalism, a rigid anti-Nato position and no room for compromise, it has been isolated by the centre-left Social Democrats and the Greens who have for many years refused to form a coalition together. Again, this social norm has kept The Left's support to a limit.

6.2 RECENT ECONOMIC PERFORMANCE

In terms of most economic metrics, the German economy has fared incredibly well during Merkel's 12 years as Chancellor. GDP has been increasing; there is a record number of people in

Figure 6c: German unemployment rate, 2005-16 (per cent)⁴¹

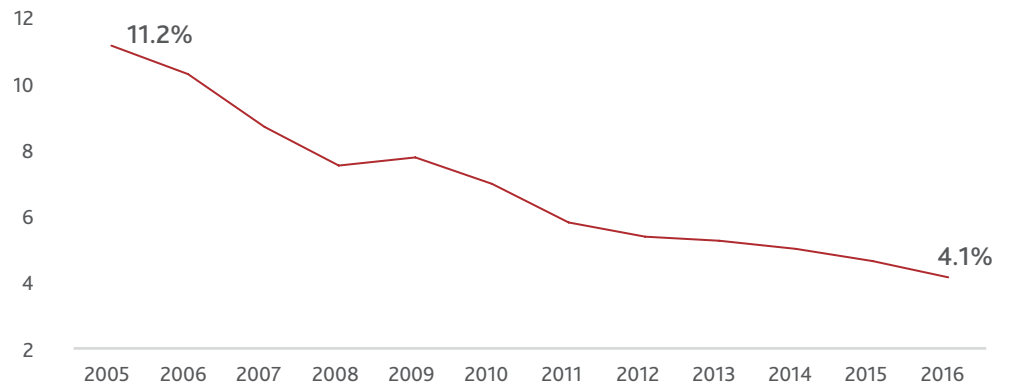


Figure 6d: German youth unemployment rate, 2005-16 (per cent)⁴²

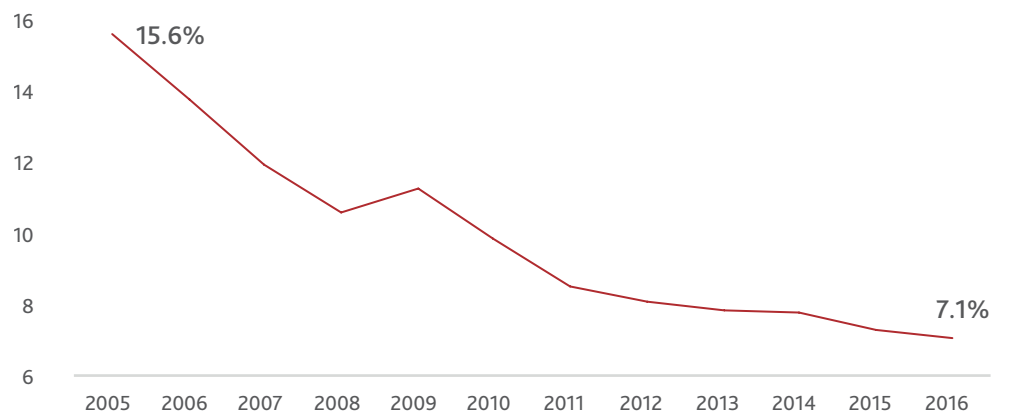
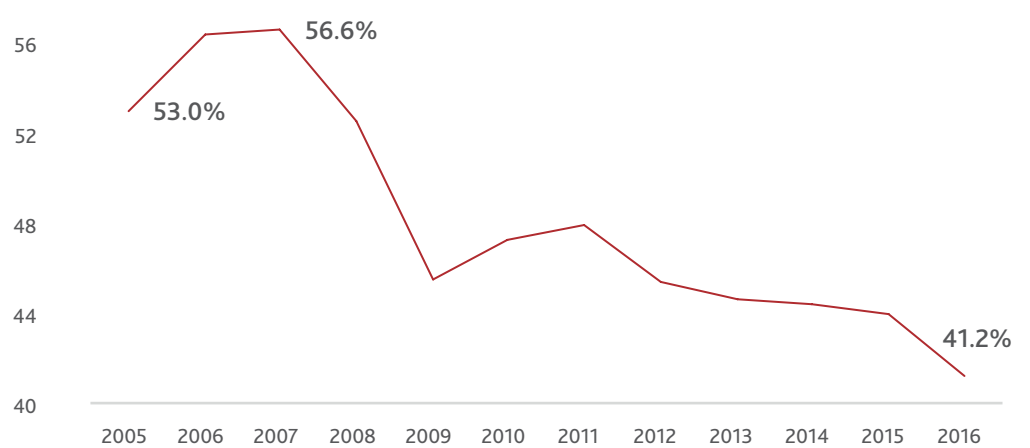


Figure 6e: Long-term unemployment rate, 2005-16 (Total, per cent of unemployed)⁴³



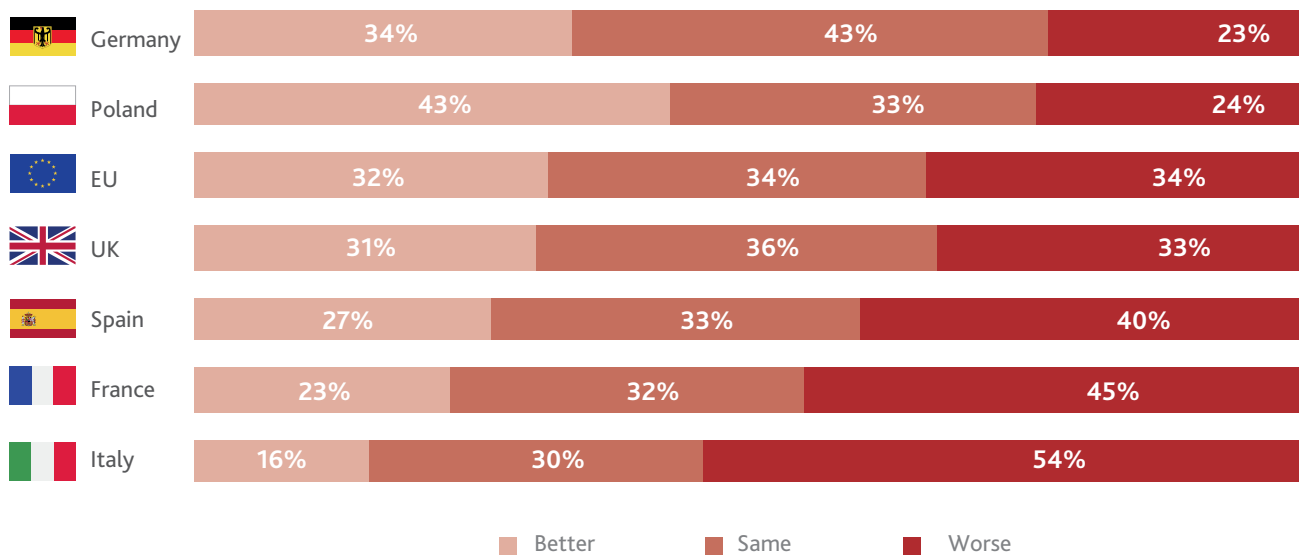


Figure 6f:
Evaluation of
personal economic
situation over the
last two years⁴⁴

employment; youth unemployment and long-term unemployment have both fallen (Figures 6b-e). The budget was balanced in 2015 for the first time in over 40 years.

German voters seem acutely aware of their situation. ARD and Infratest Dimap polling shows that since Merkel took office, the proportion of Germans who think that Germany's economic situation is good or very good has increased from 15 per cent in 2005 to 81 per cent in 2017.³⁸ Moreover, an EU-wide Bertelsmann Stiftung study shows that Germans are most likely to say that their personal economic situations over the last two years has become better or stayed the same (Figure 6f).³⁹

However, it is a more in-depth look at the regional economic differences that highlight the discrepancies between Bavaria, western and eastern Germany. Despite the policy efforts made over the past decades to even out disparities between them, eastern Germany is still materially worse off than the rest of the country, and its GDP has been increasing at a slower pace (Figure 6g). The unemployment rate in eastern Germany is also higher than elsewhere (Figure 6h). This may partially explain why, nationally, left- and right-wing populist parties have struggled to surpass ten per cent support in the polls. Their voters are regionally concentrated in eastern Germany.

Figure 6g: GDP by region, 2006-15 (Total, at current market prices)⁴⁵

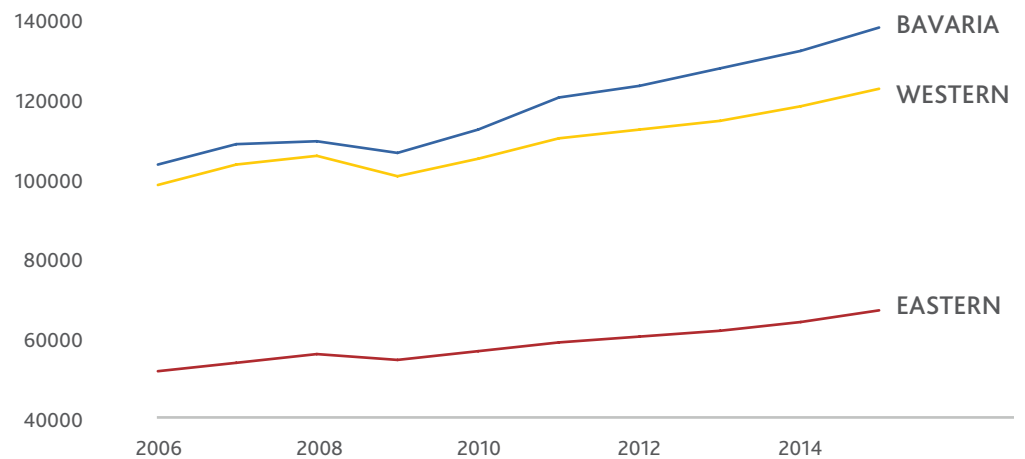


Figure 6h: Unemployment rate by region, 2006-16 (per cent)⁴⁶

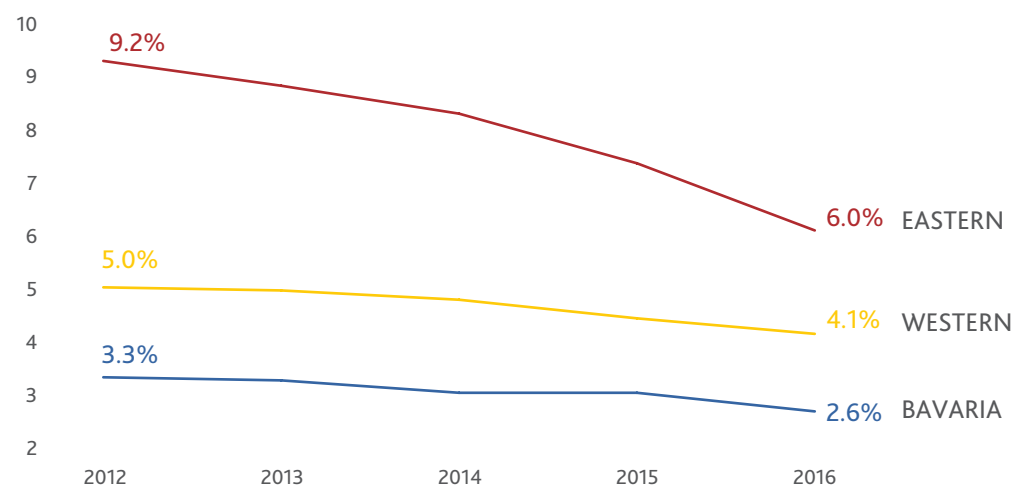


Figure 6i: Attitudes to globalisation as an economic opportunity in Germany, France, the Netherlands and the UK⁴⁸

Question: "Do you agree or disagree with the following statement: Globalisation has been an opportunity for our economy."

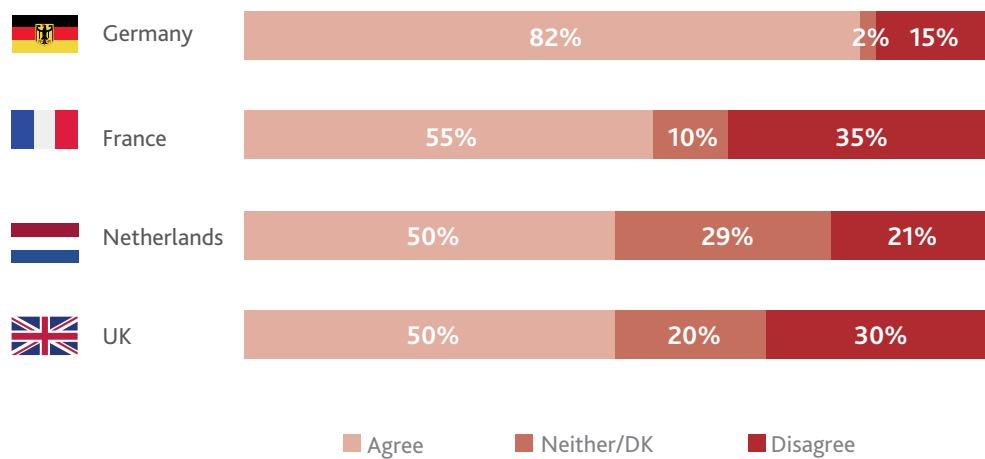
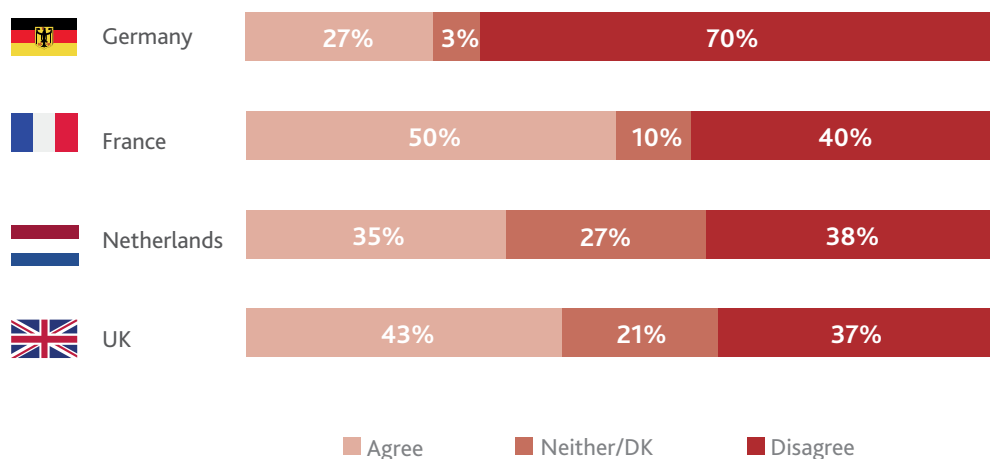
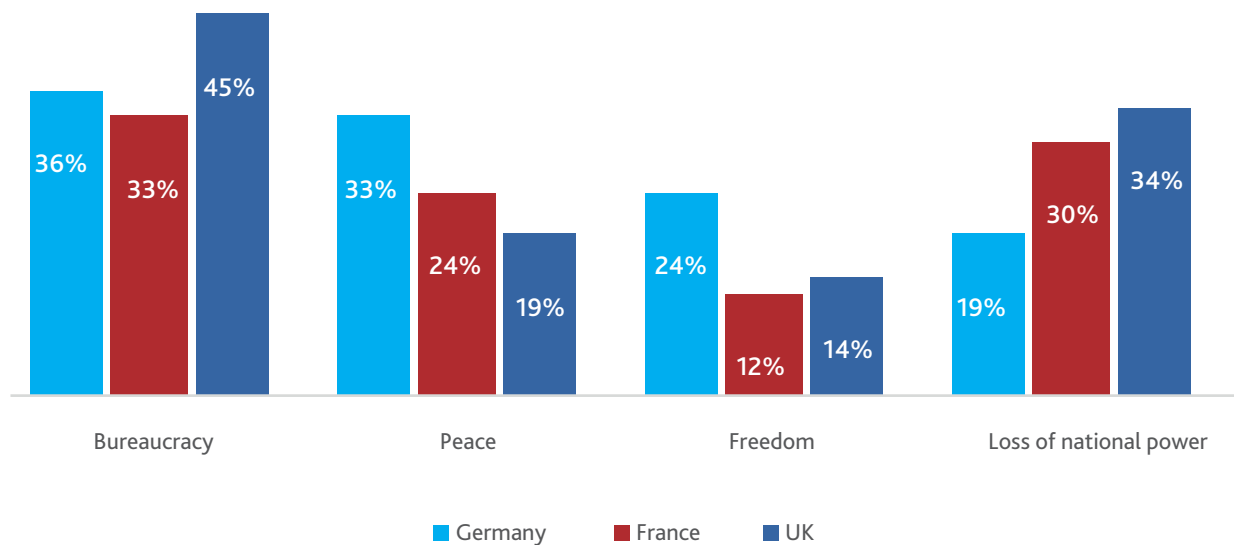


Figure 6j: Attitudes to globalisation's impact on identity in Germany, France, the Netherlands and the UK⁴⁹

Question: "Do you agree or disagree with the following statement: Globalisation threatens the identity of our country."





6.3 SOCIAL ATTITUDES

Beyond the economy, social factors also play a role in explaining support for populist politics. Looking at German attitudes to globalisation, the EU and immigration partially explains why support for the AfD and The Left is currently limited, but has the potential to expand depending on how integration efforts evolve over the next few years.

Given Germany's economic performance, it is unsurprising that German attitudes to globalisation and the EU are more positive than elsewhere. A recent Kantar Public and Infratest Dimap study comparing attitudes in Germany, the Netherlands, France and the UK highlights how Germany stands apart from its European neighbours in this regard.⁴⁷ The vast majority of those surveyed in Germany (82 per cent) see globalisation as an opportunity for their economy, compared to only around half in the other three countries (Figure 6i). Equally, those in Germany are much less likely to think that globalisation threatens their identity—only 27 per cent agree, compared to 50 per cent in France, 43 per cent in the UK and 35 per cent in the Netherlands (Figure 6j).

Figure 6k: Strongest associations with the EU in Germany, France and the UK⁵¹

Question: "Looking at the words and phrases below, which do you most strongly associate with the European Union?"

(List featured 14 options)

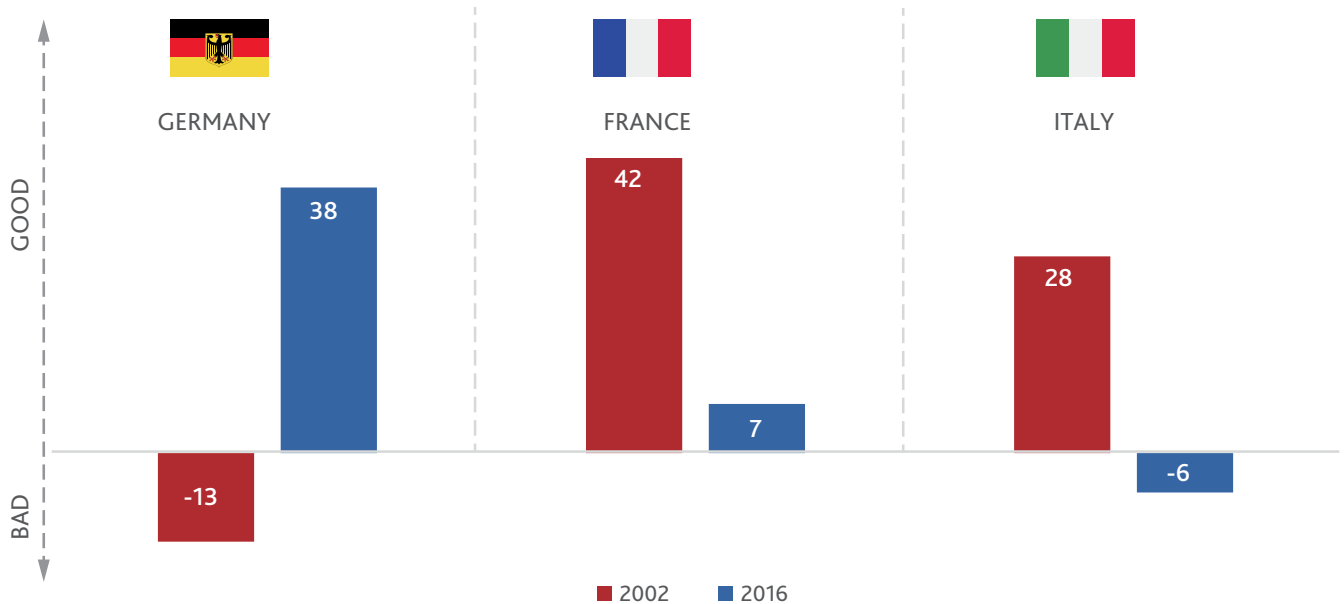


Figure 6l:
Favourability for the
Euro in Germany,
France and Italy,
2002 vs 2016⁵³

Question:
"Is the Euro area a
good or bad thing for
your country?"

Germans also remain incredibly pro-EU, particularly in comparison to their European counterparts. According to a recent Chatham House report,⁵⁰ Germans are the most likely among those in the ten countries surveyed to associate the EU with peace and freedom. While they also associate the European Union with bureaucracy, it remains on balance a favourable picture. By comparison, in France, most people associate the EU with economic crisis, bureaucracy and loss of national power. In the UK, the EU is associated with bureaucracy, loss of national power and undermining national culture (Figure 6k).

Moreover, the majority of people in Germany think that their country plays a positive role in the European Union (62 per cent).⁵² Equally, there is a clear majority of people who favour the Euro in Germany according to Eurobarometer data—a trend that has reversed over time in other Euro area countries, notably France and Italy (Figure 6l).

However, cultural tensions to do with immigration are latent under the surface. An Allensbach Institute survey for *Handelsblatt* in May 2017 found that 45 per cent of Germans without an immigrant background and 42 per cent of Germans with an immigrant background think that there are "too many foreigners in Germany today."⁵⁴ Moreover, the Chatham House survey cited earlier also shows that around half (53 per cent) of those in Germany agree that further migration from mainly Muslim countries should be stopped.

Figure 6m:
Satisfaction with
democracy in
Germany, France,
the Netherlands
and the UK⁵⁵

Question: "All in
all, are you satisfied
or dissatisfied
with the way
democracy works?"

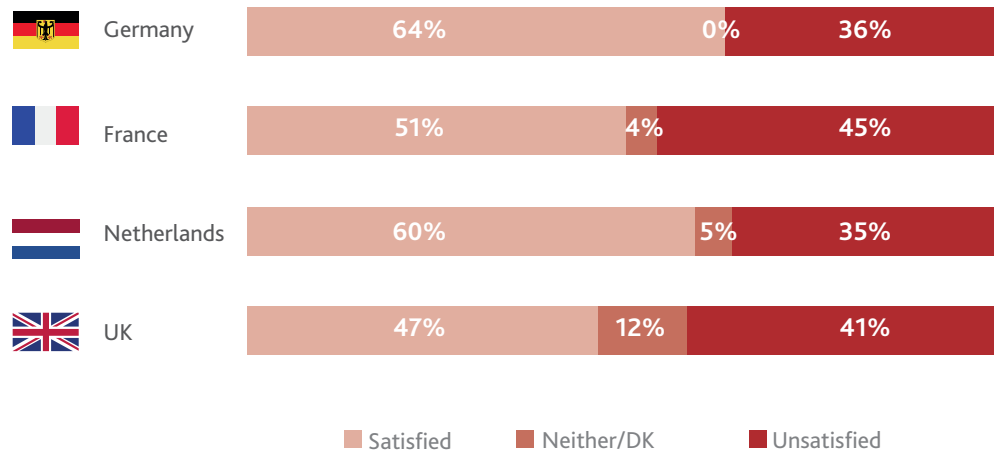
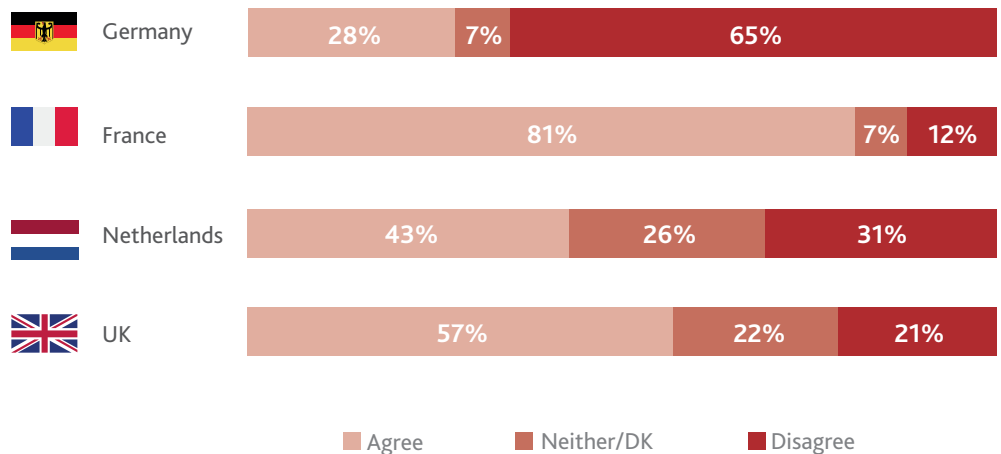


Figure 6n:
Perceptions of
failing elites in
Germany, France,
the Netherlands
and the UK

Question: "Do you
agree or disagree
that the elites in
[country] have been
completely failing for
more than 20 years?"



It is likely for these reasons that the Alternative for Germany party, in its original form as a purely anti-Euro party, gained minimum levels of support. With a renewed focus on immigration and Islam, it began tapping into some Germans' cultural anxieties.

6.4 GENERAL SATISFACTION WITH GERMAN DEMOCRACY AND ELITES

In addition to economic and cultural factors, political disaffection is the third ingredient in the populist cocktail. Once again, Germans differ from their other European counterparts in being more satisfied with the state of their democracy and their political elites.

A Bertelsmann Stiftung study published in September 2017 highlights that compared to other countries in the EU, people in Germany are the most satisfied with the direction of their country.

According to a Kantar Public and Infratest Dimap study from June 2017 on democracy and populism, a majority (64 per cent) of people in Germany are satisfied with the way democracy works (Figure 6m). Even more striking is the disparity in views about political actors: less than three in ten people in Germany agree that elites have been failing over the past twenty years; 65 per cent actively disagree with this statement. By contrast, the vast majority in France (81 per cent) and the UK (57 per cent) agree (Figure 6n).

7. CONCLUSION

While we can be fairly certain that Angela Merkel will continue as Chancellor, there are nonetheless seven key points to keep in mind:

1. Power shift to the legislature

In the current parliament, the CDU/CSU and the SPD hold 80 per cent of the seats, with the Greens and the Left Party holding the rest. This will change with the AfD and the FDP on course to also clear the five per cent threshold. The grand coalition parties' majority will forcibly shrink as a result. Regardless of the coalition partner, Merkel will be more reliant on the CSU's support. Today, the executive is strong and the legislature is weak. This is likely to reverse.

2. The choice of coalition partner can lead Germany down drastically different paths

A return to cooperation between the CDU/CSU and the Free Democrats would be a natural centre-right alliance, perhaps slightly more friendly towards the UK in Brexit negotiations, but President Macron's Eurozone reforms would likely get little traction.

It is difficult to imagine where a 'Jamaica' coalition with the addition of the Greens would find room to compromise. The two parties clash on many issues, though the minor parties TV debate revealed some points in common and an informal tone between the leaders. This would leave Merkel in an even weaker position, however, at the behest of two smaller parties who would need frequent persuading to see eye to eye.

Neither party really wants it, but a grand coalition would be a continuation of the status quo faced with a stronger opposition. While it may satisfy German voters' desire for stability, this would also mean another political cycle with many big questions ignored.

3. Populists forces are weak, but not dead

With a far right populist party set to make it into parliament for the first time since the Nazis, it is a historic moment. The Left is also likely to win a similar number of seats as the AfD, meaning that between 15-20 per cent of the parliament could be made up of populist forces.

While the AfD may fall prone to internal divisions between radicals and moderates, the party has already influenced the CDU's shift to the right on asylum and identity, reshaping the political landscape. Migration, refugees, Islam and security are set to stay on the agenda—a weaker government will face increased pressure from an opposition with a newfound parliamentary voice and a readiness to change the culture of debate.

4. What now for the SPD if it goes into opposition?

The Social Democrats are on course to win fewer votes than they did in 2013. If they do not end up in another grand coalition by default, this should be a chance to rethink the party's position in politics and present some serious alternatives to government.

It is also unlikely (though not impossible) that Merkel will stand again in 2021, meaning that next time around the SPD could have a chance to present a real change candidate. It should not waste the opportunity.

5. The result will not change much for Brexit negotiations

It is rather likely that this will be Angela Merkel's last term as Chancellor—a chance for her to guide Europe through Brexit. If Schulz were in her place, this could have possibly been a different story with a greater focus on teaching the UK a lesson. Although coalition negotiations will go on for at least a few weeks, if not a few months, after the election, it is likely that Merkel will step back into the fore of the negotiations quickly. Over the summer, she apparently told a senior member of the Austrian Government that "the grown-ups will take over the talks from October".

At the same time, it is worth remembering that the EU is in Germany's core national interest, in terms of the economy, politics and security. For all German parties, the EU's cohesion and stability are incredibly important. For German businesses, with supply chains stretching across the EU, the Single Market is also more important than tariff-free access to the UK market. German elites and the public are on the same page when it comes to the future relationship between the EU and the UK: that the EU should try to maintain a good relationship with the UK but it should not make any compromises on its core principles.⁵⁶ During the Merkel-Schulz TV debate, Brexit was not mentioned a single time.

There might be a warmer approach to the UK if it ends up being a 'black-yellow' coalition, but it is not certain that the FDP would want to spend its bargaining chips in coalition negotiations on Brexit.

At the end of the day, the result will not change that much. Merkel understands that the success of the UK and the EU are interlinked, both politically and economically. Her pragmatism will prevail.

6. A weakened government will make further EU integration more difficult

Discussions about the future of Europe will resume after the new German government is formed. In all coalition scenarios, it looks like progress towards further integration is unlikely. Merkel will either be flanked by the FDP or the grand coalition will continue, possibly with the AfD as the largest opposition party. In all cases, the CDU/CSU is divided on the issue.

7. Key trend to watch: Automation

The other key trend which might disrupt German politics in the longer run is automation. With manufacturing making up a large proportion of the German economy, a significant proportion of jobs are set to shift between occupational groups. According to the OECD, Germany has one of the highest proportions of jobs at high risk of automation (12 per cent).⁵⁷ While this

does not necessarily mean job losses—on the contrary, BCG estimates a net increase of 350,000 new jobs by 2025⁵⁸—it does mean upheaval in the job market.

A big problem with these changes is that Germany has a shrinking pool of skilled labour. The Association of German Chambers of Commerce and Industry (DIHK) view this as the biggest risk to their businesses. The government is acutely aware of the issue—its August 2017 progress report projects 700,000 fewer skilled workers in 2030 than in 2014.⁵⁹ However, with an ageing country the demographics are not currently in Germany's favour.

The question is how this will play out in terms of political views. While new jobs will be available, it does not necessarily mean that from one day to another those working in manufacturing will be keen to move to the service industry or to reskill in the digital industry. In the UK and the US, such changes have respectively led down a path to Brexit and Trump.

The regions most exposed to the effects of automation are in Germany's industrial south and west—parts of the country thus far spared from the worst of populism. While the current government has already been thinking about it, as evidenced in the Work 4.0 White Paper,⁶⁰ policy choices made in the next few years will be crucial in this regard. If politicians choose to *merken* (do nothing) on the issue, the populist backlash might hit Germany too.

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ABOUT THE AUTHORS

Matthew Elliott

Matthew's work at the Legatum Institute includes researching the rise of Populism abroad. Having been Chief Executive of Vote Leave, the official Brexit campaign in the 2016 EU referendum, Matthew is now one of the UK's foremost political campaigners. He also led NOtoAV and won the 2011 referendum on the Alternative Vote. As a policy entrepreneur, he has founded and run numerous award-winning campaigns, including the TaxPayers' Alliance (TPA) and Business for Britain (BfB), the precursor to Vote Leave. Matthew has been described by the *Financial Times* as "one of the most formidable political strategists in Westminster", and by the *New European* as "an unsung titan of the Brexit cause". Through the Westminster Foundation for Democracy, he has worked with political parties across the world, including in Azerbaijan, Belarus, Georgia, Ghana, Guatemala, Kenya, the Maldives, Montenegro, Serbia and Ukraine. He has written four books, numerous op-eds, appears regularly on TV and radio, and is a frequent speaker both in the UK and overseas.

Claudia Chwalisz

Claudia is a Consultant at Populus and a Crook Public Service Fellow at the Crick Centre at the University of Sheffield. Previously at the think-tank Policy Network, she led work on populism, democratic innovation and political economy. Claudia is the author of *The People's Verdict: Adding Informed Citizen Voices to Public Decision-making* (2017) and *The Populist Signal: Why Politics and Democracy Need to Change* (2015). She is a regular commentator and public speaker about populism, democracy and EU politics.



LEGATUM INSTITUTE

11 Charles Street
Mayfair
London W1J 5DW
United Kingdom

t: +44 (0) 20 7148 5400

Twitter: @LegatumInst

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