

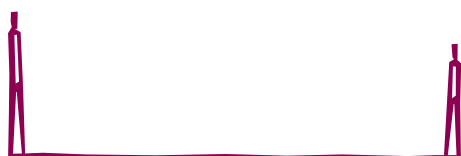
GERMANY AFTER THE ELECTIONS

44

A LIBERAL DAWN?

Timo Behr

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A LIBERAL DAWN?



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- The German elections provided a clear mandate for current Chancellor Angela Merkel to form a new coalition government between her Christian Democrats (CDU) and the Liberals (FDP), led by Guido Westerwelle. Coalition talks between the two parties have started and are likely to be concluded by early November.
- The big winners of the elections have been the Liberals (+4.8%), as well as Germany's two other mid-sized parties, the Greens (+2.6%) and *die Linke* (+3.2%). The biggest loser of the elections were the Social Democrats (SPD) (-11.2%), who return to opposition after 11 years in government. Despite Angela Merkel's popularity, the electoral standing of the CDU has also deteriorated (-1.4%).
- Overall, the elections represent a clear shift in the political spectrum from left to right. They also indicate a further weakening of Germany's two "catch-all" parties, CDU and SPD, and will lead to a more fluid and less predictable party system.
- As the clear winners the Liberals are in a strong position to shape the agenda of the new government, especially when it comes to tax cuts and structural reforms. But it would be wrong to see the elections as a vote in favour of radical change. Rather, they were a vote against the unpopular grand coalition government.
- As a result, some friction between FDP and CDU might be unavoidable. In the short-run the domestic agenda will also be constrained by next year's elections in North-Rhine Westphalia; important because of their impact on the government's majority in the Bundesrat, Germany's upper chamber.
- At home, the new government will face a difficult trade-off between the campaign promises of windfall tax cuts and the pressing need of budget consolidation. Differences also remain over health care reforms and labour market policies, while there is a consensus on extending nuclear energy and corporate tax reforms.
- Abroad, there will be few changes as Angela Merkel will dominate her inexperienced new foreign minister on all important foreign policy issues. As before, Germany will seek close ties with the US, but will only reluctantly grow into the role of a more "normal" international actor. In the EU, the new government will seek to play a constructive role, but is unlikely to be the source of new ideas and initiatives.

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Photo: Sebastian Zwez

On September 27th Germany went to the polls. The outcome—a clear mandate for a coalition between Christian Democrats (CDU) and Liberals (FDP)—demonstrates the frustration many voters felt with Germany’s grand coalition government after four years of muddling through. But do the elections also indicate greater public support for change and reforms? And will the new German government have the right recipes and enough determination to tackle Germany’s long-standing problems?

The Grand Coalition: Governing the Status Quo

The grand coalition (2005–2009) was the coalition that was never meant to be. It was the result of the CDU’s mismanaged electoral campaign and former-Chancellor Gerhard Schröder’s effectiveness as a political campaigner. Badly misjudging public opinion, Angela Merkel entered the 2005 electoral race promoting a neo-liberal reform agenda based on the CDU’s infamous Leipzig Program. Taunted as Germany’s “Iron Lady”, Merkel narrowly escaped defeat and snatched a slim victory from the SPD. With neither Greens nor Liberals willing to join the opposite camp in a three-party coalition, the only way out was a grand coalition of the CDU and SPD under Merkel’s leadership.

Despite the rather accidental nature of this coalition, hopes were high that this unlikely alliance would succeed where others had failed. In the past, Germany’s political system—due to its decentralized

nature—has tended to generate only incremental results. One problem is that due to Germany’s federal political structure, it is difficult to generate the necessary political majorities required to promote structural change. Given the large electoral majority the grand coalition commanded in both chambers of Parliament, many hoped that it would be able to finally break with Germany’s prevailing reform deadlock and deliver the long sought after renewal. But things would turn out differently.

At first the CDU and SPD indeed made some attempts to implement structural reforms—the pension age was raised, public finances consolidated, non-wage tariffs reduced and a compromise forged to reform the German health sector. But within a short period of time, the grand coalition’s reforming zeal ran out of steam. The reasons for this are twofold. First, during the first few years of the grand coalition government, the German economy experienced a moderate revival. Unemployment figures fell, the budget deficit declined and growth rates returned to the European average. This meant that there was little incentive for the two parties to force new reforms on an electorate still reeling from the deeply unpopular “Agenda 2010” of the previous red-green government.

Second, given the wide-spread opposition to further welfare-state reforms, the coalition government developed a dynamic of one-upmanship, where both partners continuously tried to outbid each other when it came to social policies. Sensing an opportunity, the



Photo: Sludgegulper

Christian Democrats quietly dropped their previous plans for market-friendly reforms and in 2006 adopted a new agenda emphasizing social justice and equality. The Social Democrats, for their part, were stuck in the difficult position of having to defend their previous reform record, while preventing the CDU from outperforming them on the issue of social justice. Overall these dynamics favoured the continuation of the status quo and allowed for only piecemeal reforms and the implementation of stop-gap measures.

In all of this Angela Merkel played an ambiguous role. While her low-key appearance and calm demeanour won her much sympathy amongst the German electorate, her consensual style of leadership was ill-adapted to the needs of the grand coalition. Rather than whipping the two coalition partners into line, she avoided taking sides and sought to act more as a moderator than a leader. Her “policy of small steps” (*Politik der kleinen Schritte*) and her method of governing with a “steady hand” (*Politik der ruhigen Hand*) proved more successful during the time of the financial crisis, when the CDU and SPD pulled together to stabilize the German economy.

Despite some moderate successes, after four years in government the grand coalition was judged a failure by a majority of the German electorate. It had neither succeeded in reforming Germany’s ailing economy and political structures, nor did it manage to win over those parts of the electorate that remained opposed to further reforms. Most importantly perhaps, it had failed to provide a clear vision for the future of the country. Instead it was perceived as a period of

muddling-through. The greatest profiteers from this situation were the three smaller parties which had used their time in opposition to strengthen their electoral profile, while in the public image the CDU and SPD had largely become indistinguishable from each other.

The Campaign: Avoiding the Big Questions

If the grand coalition was lacking in big ideas, this year’s electoral campaign held equally few surprises. Right from the start, the campaign was accompanied by an eerie feeling of predetermination. Despite the increasing similarities between the two coalition partners, the SPD suffered most under the grand coalition government. Internally divided and externally under pressure from both sides of the political spectrum, the SPD had run through three different party chairmen since 2005 and had persistently failed to cross the 30% mark in the opinion polls. The CDU, on the other hand, buoyed by Angela Merkel’s huge popularity seemed destined to win a comfortable victory. The result was a lacklustre campaign that avoided the big questions and stirred few emotions.

Based on its comfortable lead in the opinion polls, the CDU’s main challenge during the campaign was to avoid doing something wrong. The memory of the 2005 elections—when Merkel’s team squandered a similarly large lead—further contributed to the CDU’s cautiousness. As a result, the CDU campaign was solely focused on Merkel and her competence as Chancellor. Indeed Merkel herself studiously refused

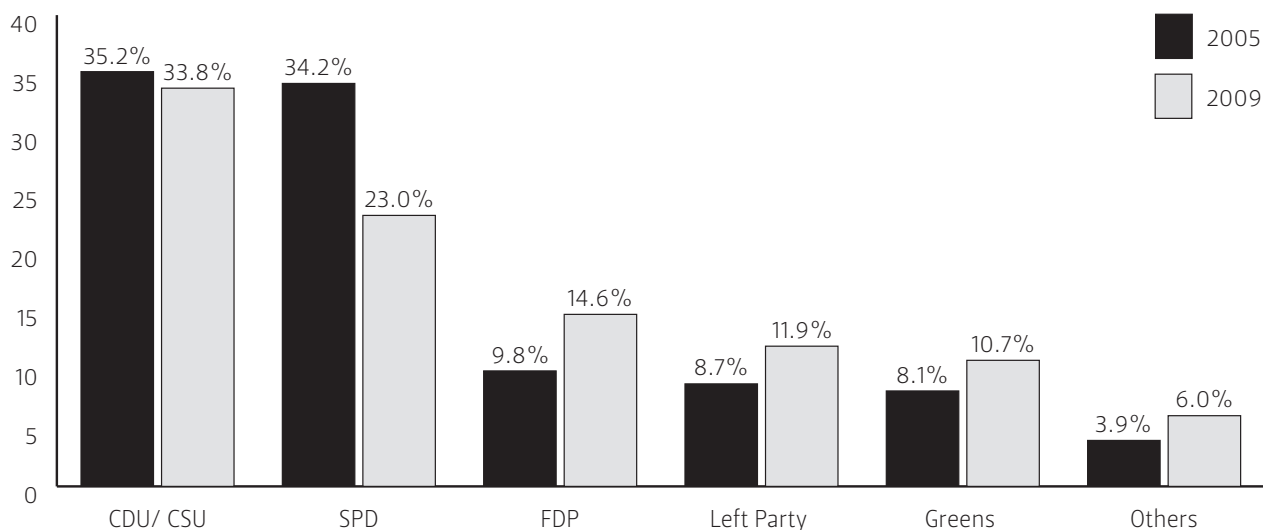


Figure 1. German federal election results. Source: The Federal Returning Officer (Der Bundeswahlleiter)

to be dragged into any debate on policy issues and did not reveal much about her plans for the future. The SPD for its part, was widely touted as the loser of the elections before the campaigning had even started. Although the SPD chancellor candidate, Frank-Walter Steinmeier, managed a respectable performance, in the end he failed to convince his party and the public that there was much that differentiated the SPD from the CDU.

While Germany’s two large parties diligently sought to avoid the big policy issues, the smaller parties attempted to gain ground by making inflated and largely unrealistic campaign promises. On the left, *die Linke* tried to capture frustrated SPD voters by promising a reversal of domestic reforms, the withdrawal of German troops from Afghanistan and an exit from NATO. On the right, the FDP pledged windfall tax-cuts, in spite of Germany’s deep budgetary crisis, a radical overhaul of labour laws and the dissolving of the Federal Labour Agency (*Agentur für Arbeit*). While neither could have hoped to make good on these promises, their agendas enabled them to mobilize their own base and to capture additional votes from the two large parties.

Serious debate on policy issues remained rare and was largely the result of outside events. Thus the Bundeswehr’s bombing of two fuel tankers in Afghanistan—leading to considerable civilian casualties—forced the parties to clarify their stance on Germany’s contentious military deployment. Similarly the bleak budget assessments of some economic experts led to a brief debate over the generous taxation promises made by some of the

parties on the right. In the end, neither seems to have had much of an impact on the campaign or the outcome of the elections.

The Outcome: A Mandate for Reforms?

Once the ballots were counted, it emerged that Germany’s centre-right had won a decisive victory. Although opinion polls indicated some late gains for the SPD and its chancellor candidate, the Social Democrats plunged to new depths—scoring the worst results ever in their post-war history. Capturing a mere 23% of the vote, the SPD has been effectively declassified as a political force. However, the CDU, for its part, did not have much to smile about either. Despite Angela Merkel’s “chancellor bonus”, the CDU gained a mere 33.8%, the second worst results in its history. The real winners of the elections were the three mid-sized parties and above all Guido Westerwelle’s liberal FDP, which scored 14.6%.

There are two things that stand out when it comes to the result of the elections. First, Germany’s electoral balance has tipped conclusively towards the right. Thus, the proportions of the left-of-centre to the right-of-centre parties have shifted considerably in favour of the right. Second, the elections led to large gains for the small parties and seem to confirm the inevitable decline of Germany’s “catch-all” parties. Indeed the CDU and SPD together captured a mere 56.8% of the vote.

One reason for the weakness of the big parties has been their failure to mobilize their traditional voters.

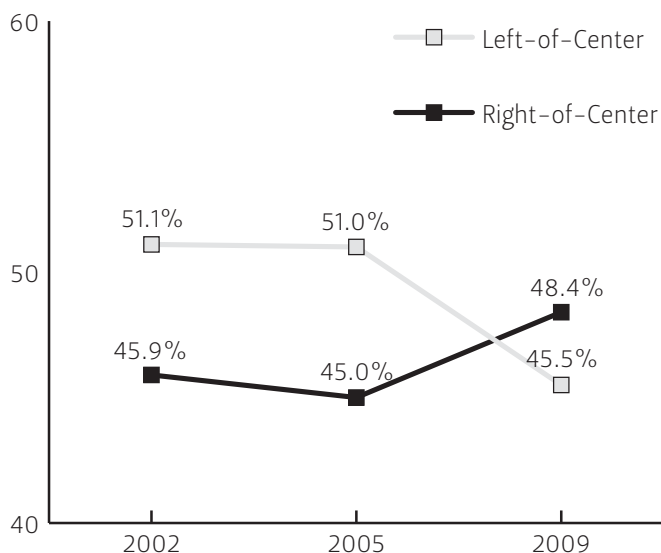


Figure 2. Left-right distribution of votes.

Thus, polls indicate that more than 1.6 million former voters of the SPD and 900,000 voters of the CDU abstained from going to the polls. This seems confirmed by Germany's lowest voter participation on record (70.8%). Another reason has been that both parties have lost a large number of votes to the smaller parties. Here it is interesting to note that the SPD lost voters in all directions, while the large majority of votes lost by the CDU went to the FDP –most likely due to “tactical” voting. Overall, the outcome confirms the reality of Germany's more fluid and fragmented five-party system.

Still the elections did provide a comfortable majority for a coalition of the CDU and FDP led by Angela Merkel. Moreover, due to the victory of the CDU in the simultaneously-held state elections in Schleswig-Holstein, the future “black-yellow” government can now also count on a majority in the *Bundesrat*, Germany's vital second chamber. Both CDU and FDP have promised speedy coalition talks, which they hope to conclude in time for the 20th anniversary celebration of the fall of the Berlin Wall on November 9th.

But coalition talks between the two “dream partners” might prove to be more difficult than expected. Significant differences remain between the programs of the two parties when it comes to taxation, health care, labour policy, internal security and others. On all of these the FDP is determined to leave its mark and will attempt to push for tough liberal reforms. In this it will receive vital support from the CDU's business-wing, which has been dissatisfied with the party's creeping “social-democratization” over the

last four years. Merkel and the party's labour-wing, on the other hand, remain more cautious. Merkel herself announced that she did not perceive the need for a change of direction. The CDU's labour-wing, led by Jürgen Rüttgers, will oppose any painful reforms before next year's regional elections in North-Rhine Westphalia.

Given the importance of next year's elections for the government's majority in the *Bundesrat*, it is likely that there will be no immediate change of directions. Whether the FDP will be able to sell Merkel and the CDU on to a neo-liberal reform agenda in the long-run remains to be seen. For one, it is not clear that the new government has received a popular mandate for radical reforms. At least part of the FDP's strength can be explained by the tactical voting behaviour of some CDU supporters that wanted Angela Merkel to continue her policies with a new partner. If anything, the last few years have shown that the German public remains deeply opposed to new reforms.

Overall it seems unlikely that Merkel will switch roles again and re-emerge as Germany's incarnation of Margaret Thatcher once the coalition talks have been concluded. However, while the new government will continue to look for compromises and avoid an outright confrontation with the public, some shift to the right and towards more market-friendly policies will be inevitable. But will the new government have the right recipes and enough determination to take on the most important problems facing Germany?

The Challenge: Reform and Normalization

Whatever the result of the coalition talks, Germany's new government has its work cut out for itself. It is unlikely to be an easy one. Germany's brittle economy and ageing population mean that there is little time to be lost. To preserve Germany's high standards of living and guarantee a fair generational balance, there are no alternatives to continuing domestic reforms. Some of the most pressing concerns include:

- **Budgetary Consolidation:** As a result of the financial crisis Germany's fiscal balance has badly deteriorated. After years of budgetary consolidation Germany's deficit has increased to €50 billion in 2009 and is expected to slide to €100 billion in 2010. This means that in the immediate future Germany's new government is likely to have few choices but to either rule in expenses or raise taxes.
- **Reviving Growth:** While Germany's economy seems to be slowly emerging from the recession, growth remains extremely fragile. Unemployment is forecast to increase as the effects of the economic downturn start working their way through to the labor market and as government job guarantees and other stimulus measures will be faded out. Many analysts have also argued that Germany's economy will continue to be crisis prone, as long as it is unable to shift away from export-led growth.
- **Ageing Population:** The rapid ageing of its population will be a key concern for Germany in the years to come. As Germany's workforce dwindles, it will become ever more difficult to finance the future costs of pensions, health care and other social schemes. With estimates indicating that Germany will lack some 2.4 million workers by 2020 it will become ever more difficult to achieve a fair generational balance.
- **Reforming Education:** Germany's education system continues to be in a bad shape and urgently requires additional money and reforms. Germany's students—especially those from an immigrant background—continue to perform badly in international comparisons and fewer Germans obtain a university degree than the

OECD average. Skill shortages are already showing and will only become worse.

- **Immigration:** Immigration remains a major challenge in Germany despite the turn towards more immigrant friendly policies. While close to 10% of Germany's population are immigrants and every fourth child in Germany is born to immigrant families, immigrants continue to be disadvantaged in jobs and education.

In addition to dealing with these considerable domestic challenges, the next German government will have to face a number of issues when it comes to international affairs. Here, the main task for the new government will be to manage the on-going "normalization" of Germany as an international actor. Faced with an international system that is increasingly in flux, Germany will be less and less able to use its historical "exceptionalism" as an excuse to dodge international responsibilities. In order for Germany to shoulder its responsibilities in Europe and the world, the new government would be well advised to develop a more international mindset and make a greater effort to explain Germany's changing role to its sceptical domestic audience. In addition, the new German government will have to deal with several concrete challenges:

- **Afghanistan:** Due to the recent increase in fighting, Germany's Bundeswehr is increasingly pushed to take on a more offensive role in Afghanistan. Friction and accidents seem unavoidable—as the recent tanker bombing has shown. The new government will need to be more open about Germany's military deployment in Afghanistan and develop a strategic vision for Germany's role in the country.
- **European Union:** Despite the Irish "Yes", the EU continues to be stuck in one of the worst crises in its history. Uncertainty about its future borders, questions about its legitimacy and purpose and declining public support need to be addressed with urgency. On all of these issues Germany needs to make a greater contribution to EU politics from which it has all too often abstained in the past. Rather than just fending for its short-term national interests, this would mean contributing to a more serious long-term discussion about the EU's future borders and purpose.



Photo: <http://www.guido-westerwelle.de/>

- **Russia:** Relations with Russia continue to be a major challenge for Germany and the EU. Especially Germany's eastern neighbours remain suspicious about German intentions and need reassurances. To support a constructive European policy Germany needs to be willing to place some of its relations with Russia on a European level—especially when it comes to energy—but it also has to convince its Central and Eastern European partners that a policy of confrontation is not in their interest.
- **Financial Crisis:** Germany's economy still struggles under the impact of the financial crisis, despite indications that the worst might be over. The new German government will have to continue to work with its partners in the EU and the G-20 to address the impact and causes of the financial crisis. It remains to be seen whether Germany's new finance minister—likely to be from the liberal FDP—will set a new agenda for Germany, or follow the pragmatic approach of his predecessor.

The Prospects: A Liberal Renaissance?

Given the magnitude of the challenges, the new German government will have some tough choices ahead of it. The prospects are mixed. Significant differences remain between the two coalition partners on some important policy issues, from taxation to labour laws and health care reforms. If the FDP—with support of the CDU business-wing—manages to have its way, Germany will experience a

liberal renaissance in the middle of one of the most severe crises of liberal economic policies in five decades: Labour laws will be weakened, the taxation system will be overhauled and taxes radically lowered, more privatization will be introduced to health care and education and the powers of the police will be more strictly controlled. The result would be a different country.

More likely, however, is a characteristically German compromise that will temper some of the more radical policy proposals of the FDP, but allow for gradual progress and reforms. Indeed Merkel already announced that she would not agree to undoing existing minimum wages and labour laws and that budget consolidation would remain a top priority. Guido Westerwelle for his part seems to be retreating from some of his campaign promises. In the end it seems likely that the FDP's inflated tax promises will be diluted and some compromise will be found on most of the other divisive issues.

Still, there will be some considerable differences between the new government and the previous grand coalition. In the energy sector, it will extend the life of Germany's nuclear power stations and seems likely to cut subsidies for renewables, especially solar energy. The government is also likely to cut corporate and inheritance taxes, introduce more competition to health care and education and will be more forgiving when it comes to financial regulation. Proposals for additional minimum wage agreements and a "tax on speculation" as proposed by the previous government will be quietly dropped.

On foreign affairs there will be few differences as Merkel will continue to play a dominant role and easily outshine her inexperienced new foreign minister designate, Guido Westerwelle. Westerwelle, who has promised to follow in the footsteps of Hans-Dietrich Genscher, has no track-record when it comes to foreign affairs. In his few foreign policy addresses, he has promised to work closely with the US, uphold Germany's international responsibilities, and restore relations with Germany's smaller neighbours in the East; but he also favours constructive relations with Russia. During the campaign Westerwelle only stood out by emphasizing non-proliferation and disarmament and for calling for the removal of US nuclear weapons from Germany.

Concerning the EU, there will be few new impulses coming from the new German government. Angela Merkel is widely respected in Europe but she prefers to be a manager and mediator, rather than a leader, and is not known for her bold new ideas. As a result Germany will continue to swim in the mainstream of European politics and expect others to take the lead. One change, however, will be that the new German government more clearly opposes EU enlargement to Turkey. Yet it seems unclear whether it is prepared to act on this position. When it comes to relations with the US, the new government will seek close ties and emphasize communalities. Here there is a very real risk that Germany will sacrifice its own positions over issues such as climate change for convivial relations with the popular Obama administration. Finally there will be no changes to Germany's Afghanistan deployment under the new government.

To conclude, while the German elections have shifted the country towards the right and strengthened the hand of the liberal reformers, Germany is unlikely to witness a liberal dawn, whether in domestic or foreign affairs. Despite the outcome of the elections, the German electorate did not vote for radical change. Rather they voted for clarity and for an end of the unpopular grand coalition government. As a result, tomorrow's Germany is unlikely to differ radically from that of today.

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