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## GERMAN POLITICS: WHAT THE GREENS ARE UP TO

### Berenberg Macro View

Germany's Green Party will most likely be part of the next German government after the 26 September 2021 federal election. We see a 20% probability that the next chancellor after Angela Merkel's final term ends later this year will hail from the Greens. Although Merkel's centre-right CDU/CSU remains the favourite to lead the next government (75% probability), we thus need to watch the Greens as closely as the CDU/CSU over the next few months.

#### FOUR REASONS TO WATCH THE GREENS AS CLOSELY AS THE CDU/CSU

First, like the CDU/CSU, **the Greens have yet to decide – or disclose – who of their two party chiefs will run for chancellor** – the more experienced, eloquent Robert Habeck or the more dynamic, policy-savvy Annalena Baerbock. It seems increasingly likely that Baerbock will decide whether she wants to run or leave the candidacy to Habeck.

Second, a **Green chancellor** would be post-war (West) Germany's first leader from a party other than the CDU/CSU and the SPD. While the Greens significantly trail the CDU/CSU in voter approval – currently at c18-20% vs. 30-33% for the CDU/CSU in the polls, they have more coalition options than the CDU/CSU. If they team up with the CDU/CSU, they would very likely be the junior party. But as they will likely be the second strongest party in parliament, the Greens would be the senior party in every coalition they may form without the CDU/CSU. Combining the chances of a green-red-red "R2G" alliance (10%) and "traffic-light" coalition between the Greens, the "red" SPD and the "yellow" liberal FDP (15%) and a small probability that the SPD may still come ahead of the Greens, the Greens have a 20% chance to lead the next government and pick the next chancellor. In the state election in Baden-Württemberg on Sunday, the Greens benefitted from the incumbent bonus for their popular state premier in Baden-Württemberg, Winfried Kretschmann, winning 32.6% of the vote. This highlights their potential. However, their 9.3% result in Rhineland-Palatinate – against a popular state premier from the SPD – demonstrates that the Greens cannot be sure about relegating the SPD to third place at the national level. We see a 5% chance that the SPD may lead the next government and elect Olaf Scholz as chancellor.

Third, **the trend continues to be the Greens' friend as the regional elections have shown**. After the "Fridays for Future" protests pushed the Greens' voter approval from around 10% in early 2018 to a peak of 26% in summer 2019, their support has slipped again modestly in opinion polls. However, they continue to advance in elections relative to previous votes – at Sunday's elections in Baden-Württemberg +2.3ppt and in Rhineland-Palatinate +4ppt. For the past two years, they increased their support mostly at the expense of the SPD which cannot match the Greens with respect to climate change credentials and lacks charismatic leaders. In addition, the Green leadership duo has pushed the party line more into the centre, thereby making it more palatable to mainstream voters. The Greens have become the strongest force by far in Baden-Württemberg due to the appeal of Kretschmann who combined green idealism with pragmatic, sometimes even fairly conservative policies.



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Fourth, **the Greens have not been in government since 2005, but are gearing up for it.** Angela Merkel governed twice with the SPD and once with the FDP, but never with the Greens. Still, big Green initiatives have dominated the public discourse and become mainstream policies – the decision to exit nuclear energy in 2011, or the introduction and broadening of the CO<sub>2</sub> emission pricing scheme – or at a EU level to move forward the date at which to reach CO<sub>2</sub> neutrality. The Greens will present their draft national election manifesto on Friday. We will know a bit more thereafter which aspects they emphasise.

### KEY POLICY PROPOSALS OF THE GREENS

The Green election manifesto will likely be close to the detailed programme which the Greens adopted last November after a three-year process. Key policy proposals of this programme:

- **Taxes and spending:** higher tax free allowance, higher taxes on incomes above €100k (for singles with a higher threshold for couples), re-introduction of a wealth tax for “super-rich”, reform of the inheritance tax, capital income to be taxed with personal income rate rather than current 25% flat rate, introduction of financial transaction tax, reform/easing of the public debt brake in the constitution, tax on digital platforms based on sales, strong action against international tax havens, more support for financially constrained towns/regions, cheaper funding for start-ups
- **Welfare:** more generous and less means-tested welfare provisions (not quite but a bit closer to unconditional minimum income than the current system), minimum remuneration for self-employed, more financial support for families for longer (in total €12bn annually), better training/social jobs for long-term unemployed, all citizens to pay into statutory health insurance (similar to British NHS), build 1m social houses
- **Energy/climate change:** Faster exit from coal, 20 most dirty coal power plants to be shut down immediately, 100% renewables to generate electricity by 2030, new cars to be emissions-free from 2030 onwards, higher CO<sub>2</sub> emission tax (starting with €60/CO<sub>2</sub> ton instead of current €25/CO<sub>2</sub> ton), work toward car-free inner cities and introduce general speed limit on highways, trade agreements to demand other side to respect EU’s (high) environmental standards
- **Work:** more flexible working hours, right to work from home office where possible, boost the power of works’ councils and strengthen co-management powers of employees
- **Education:** offer early childcare for every 1-year old, boost spending on schools to a total of €10bn over the next five years, offer apprenticeship to every school leaver, extend financial support to more students
- **Immigration:** skills-based but generally more liberal policy, easier access to German citizenship
- **Europe:** in line with French President Emmanuel Macron’s proposals for closer integration/more solidarity, strong EU economic commissioner who is also Eurogroup chief, a European unemployment re-insurance scheme, big EU/Eurozone common budget or permanent fiscal capacity, transform European Stability Mechanism (ESM) into a European Monetary Fund that answers to the European Parliament, faster progress on banking union including deposit insurance, more powers for the European Parliament at the ex-



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pense of national parliaments in the EU, more power to national parliaments to control their governments in European Council.

- **Trade:** against internal trade agreements such as CETA, TTIP and TiSA in their current form, less rights for companies/investors, more direct participation for citizens
- **Foreign/defence:** More human-rights based foreign policy (tougher stance versus China and Russia), more open than SPD to raise military spending but against raising it to 2% of GDP (NATO target), in favour of spending 0.7% of GDP on humanitarian aid.

### GERMANY'S CONSENSUS MACHINE

Even a major change in government to a coalition without the CDU/CSU later this year would have less of an impact in key areas such as on Germany's overall fiscal stance and on its position on key European issues than many outside observers seem to believe. The constitution requires key policy changes on fiscal policy and European affairs also to be approved by the upper house of parliament, the Bundesrat. In the Bundesrat the CDU/CSU, the SPD and the Greens each have long hold a veto given their multiple representation in state governments which make up the upper house. Thus, key decisions can rarely be taken on a partisan basis. Recently, the Greens used their veto power in the Bundesrat to demand a higher CO<sub>2</sub> emission price than the CDU/CSU-SPD coalition government had in mind. The CDU/CSU would likely contain the amount by which a Green-led leftist coalition could increase taxes on high income earners, the wealthy etc.. All three parties are likely to keep their veto for years to come.

In addition, even if for example the CDU/CSU drops out of three state governments which they are currently part of after state elections this year (Baden-Württemberg now, Saxony-Anhalt in June and Mecklenburg-Vorpommern in September) and do not join state governments they are not part of (Berlin and Thuringia in September), the CDU/CSU would still keep its veto in the Bundesrat. The CDU would also have to lose its stake in state governments after elections in 2022, either in Lower-Saxony, North Rhine-Westphalia or Schleswig-Holstein (losing Saarland would not be enough). While this is certainly possible, such a losing streak would be unlikely. Furthermore, a major transfer of fiscal power from the German parliament to the European parliament – think of the transformation of the ESM to an EMF, a big EU/Eurozone common budget etc. – could even require a change of the constitution. That would raise the bar even further: the need for a 2/3 majority in both the lower house and the upper house of parliament limits the scope of any changes to the constitution.

Nevertheless, as in the US, the federal level can impose serious regulations even without parliament (or without the upper house of parliament in which the CDU/CSU would most likely still have a veto even if it is no longer part of the federal government). As to the kind of policies which a green-red-red coalition at the federal level may pursue, think of the cap on housing rents imposed by a red-red-green state government in the city state of Berlin writ large and extended to further sectors. Tighter regulations of labour and service markets could turn into a serious drag on German trend growth over time. This is the tail risk to watch in German politics.



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### **BERENBERG PROBABILITIES FOR THE POST-MERKEL GOVERNMENT**

- 75% probability of a government led by the CDU/CSU with either Armin Laschet or, slightly less likely, Markus Söder as chancellor. Such a government may be a coalition with the Greens (65%) or the SPD (10%).
- 20% probability for a government led by the Greens with either Habeck or Baerbock as chancellor.
- 5% probability for a government led by the SPD, with current finance minister Olaf Scholz as chancellor.
- A government led by either the Greens or the SPD (combined probability of 25%) could be either a coalition between Greens, SPD and hard-left Left Party (10%) or between Greens, SPD and liberal FDP (15%).

After Sunday's setback in Baden-Württemberg and Rhineland-Palatinate, the CDU/CSU will likely decide whether CDU boss Laschet or CSU leader Söder will be their joint candidate to succeed Merkel between Easter (early April) and Pentecost (late May).

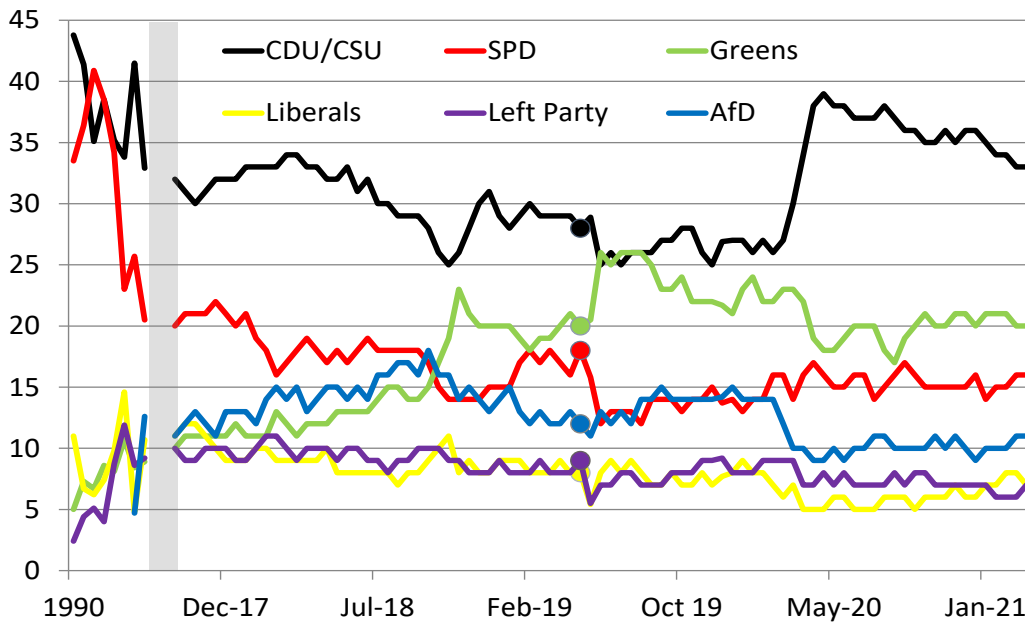
### **TIMELINE**

- April/May: CDU/CSU and Greens to nominate their candidates for chancellor
- 9 May: SPD party convention
- 6 June: Regional election in Saxony-Anhalt
- 11-13 June: Green party convention
- 26 September: German federal election and regional elections in Berlin, Mecklenburg-Vorpommern and Thuringia



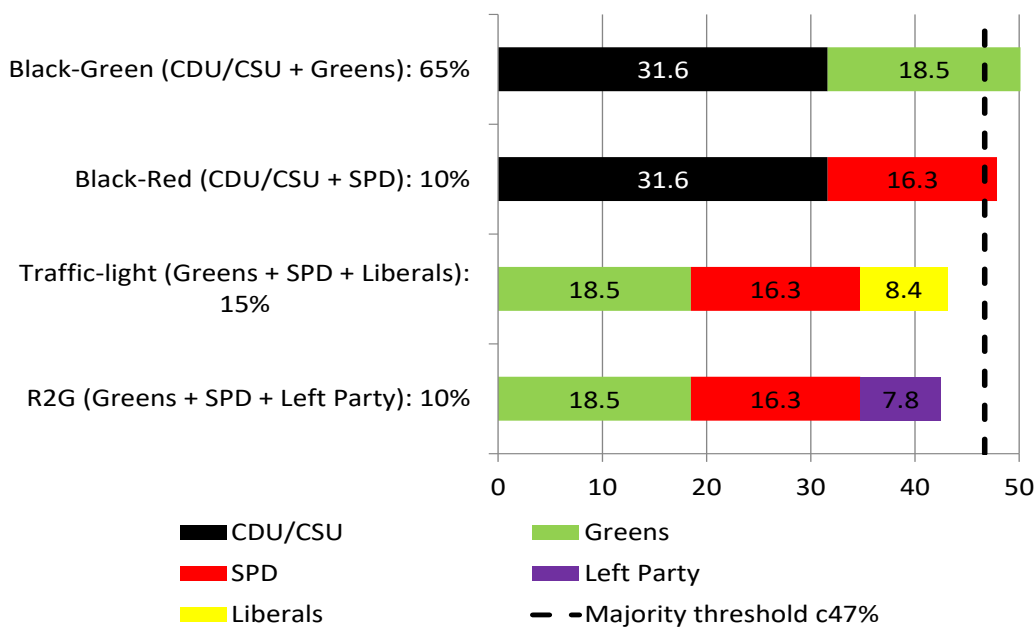
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Chart 1: National election results and opinion polls (in %)



Election results 1990-2017; "ARD DeutschlandTrend" opinion polls thereafter, the dots mark the European election result of 26 May 2019. Sources: Bundeswahlleiter, ARD

Chart 2: Various coalition options and Berenberg probabilities



Average of recent opinion polls in %. Sources: INSA, Kantar, Forsa, infratest dimap, Berenberg



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