Economist.com GLOBAL AGENDA

A surprise that leaves Germany in limbo

Sep 20th 2005
From The Economist Global Agenda

The German election has ended in deadlock, with Gerhard Schröder's party snatching nearly as many votes as Angela Merkel's CDU/CSU, which had been expected to win comfortably. The result is bad news for Europe's largest economy, and for the continent as a whole

VOTERS in Germany have spoken, but no one can yet say who will govern the country. The result of the election held on Sunday September 18th is a deadlock not seen since the end of the second world war: the governing coalition of Social Democrats (SPD) and Greens has lost its majority, but the opposition Christian Democrats (CDU) and Free Democrats (FDP) surprisingly failed to win a majority of their own. A “grand coalition” of the CDU and the SPD now seems the likeliest outcome, but whether the SPD’s Gerhard Schröder, hitherto chancellor, or CDU leader Angela Merkel would head it remains open. Negotiations to form a new government will take weeks, if not months. And the outcome could yet be decided in a district of Dresden, where voting had to be postponed for two weeks after the sudden death of a parliamentary candidate. Whatever the complexion of the next government, this hung vote looks like being a setback for the reform process in Germany, and thus for Europe too.

When the results of the first exit polls circulated on Sunday afternoon, even long-time political observers couldn’t believe what they were seeing. Despite losing their majority, the SPD and the Greens both did better than expected, with 34.3% and 8.1% respectively, according to the provisional final tally. More surprisingly, the CDU and its Bavarian sister party, the Christian Social Union (CSU) together came in well below 40%, not well above it as predicted by every pre-election poll: they took a combined 35.2% of votes, a mere percentage point more than the SPD. The only good news for the opposition was the result for the liberal, pro-reform FDP, which came in just shy of 10%. The Left Party, a recently formed amalgam of eastern Germany’s former communists and leftists from the west, got 8.7%.

If one drills deeper, the results are even worse for the CDU and Ms Merkel. In many of the states in which the SPD had lost elections in recent years because of Mr Schröder’s economic reforms, the party has again pulled ahead of the CDU, notably in North Rhine-Westphalia (with 40% compared with 34.4% for the CDU). It was the SPD’s crushing defeat there in May that led Mr Schröder to seek early national elections.

What went wrong for Ms Merkel? For a start, she ran a lacklustre campaign and made many unforced errors. Her biggest by far was recruiting Paul Kirchhof, a judge-turned-professor who favours radical tax reform, as her prospective finance minister, because it gave Mr Schröder an easy target. In the last two weeks of the campaign

he and his party launched withering attacks on the “professor from Heidelberg” and the CDU’s “radically unsocial” reforms. Such language appears to have resonated with many Germans, who still love social consensus and dread too much change.

But the disappointing result also suggests that Ms Merkel may not have been the right candidate for the CDU, because she is so atypical of a party with deep Catholic, social and western elements. The remarried, Protestant woman from eastern Germany favouring radical economic reform seems to have frightened away many who would otherwise have voted for her party. She may also have scared voters away from the CSU, which fields candidates only in the predominantly Catholic state of Bavaria. The party dropped below 50% there—a decline of nearly ten percentage points from the last elections in 2002.

Some predict that, whatever form of coalition ends up running Germany, Ms Merkel won’t be the Christian Democrats' leader for long. The party's parliamentarians were expected to back her in a vote scheduled for Tuesday afternoon. She would then have perhaps a month to try to form a coalition government under her leadership. Yet even if she succeeds, the CDU's barons may start to look for a new boss in coming months.

With both big parties claiming victory despite neither of them winning a majority, a grand coalition may in any case be unachievable. The SPD/Green coalition had lost the election, Ms Merkel announced on Sunday evening, adding that “we now have the responsibility for forming a government.” For his part, Mr Schröder, awash in standing ovations, said that “those who wanted change in the chancellery have failed grandiosely.” Mr Schröder said the SPD will not enter into negotiations on a grand coalition if the CDU doesn’t allow him to remain chancellor. Rumour has it that he wants to stay in the job for another two years and then hand over the reins to a CDU leader, be it Ms Merkel or somebody else. Some say that Mr Schröder may even gamble on getting re-elected in the parliamentary vote for chancellor with the help of the Left Party (although he has, like all the other parties, ruled out forming a coalition with them).

Such clashing interpretations of what has happened won’t make forming a grand coalition easier—particularly since the CDU and SPD have won, with 225 and 222 respectively, about the same number of seats in parliament. Things could get closer still if the CDU loses the vote in the Dresden district on October 2nd, and there is a slim, albeit unlikely, chance that the SPD could even come out ahead.

Though some form of CDU/SPD coalition is the most likely outcome, there are other possibilities. One much-talked-about combination is the “traffic light coalition”, which would include the SPD (party colour: red), the Greens and the FDP (yellow). But on Monday Guido Westerwelle, the boss of the FDP, said he had “categorically” ruled out any such grouping.

A slightly more likely combination is a government made up of the CDU, the FDP and the Greens (dubbed the “Jamaica coalition” because the parties’ colours are black, yellow and green). Joschka Fischer, Germany’s foreign minister and the unofficial boss of the Greens, has hinted that he might be prepared to consider this rather unnatural alliance. “If a grand coalition doesn’t happen, we all have to do our duty,” he said in a television debate. However, he also pointed out that the Greens have little in common and the CDU and FDP on issues such as nuclear power, social policy and Turkish membership of the European Union. On Tuesday he said he believed his party was heading for a time in opposition.

No appetite for reforms?

Whatever the outcome of the coalition-building, two main conclusions can already be drawn from this election. First, Germany’s two big “people’s parties” continue to lose ground: the smaller parties taken together now have roughly as many votes as either the CDU or SPD. More importantly, Germans appear to be balking at more far-reaching reforms, particularly in regions where the unemployment rate is well above the 11.6% national average. On Monday, the euro fell to a seven-week low against the dollar as the election result was widely interpreted as a rejection of the reforms Ms Merkel had promised. Many economists believe the CDU's economic programme offers the best hope of boosting German growth.

Perhaps the best solution for Germany is not to try to cobble together a ruling coalition, which would have a hard time implementing any meaningful reforms or even surviving for long, but to allow voters to gather their thoughts and vote again. For if Germany remains stuck in protracted political paralysis, it would be bad news not just for Europe’s biggest economy, but for the entire continent.