

A German 'Jamaica' coalition will hinder Eurozone reform, but make little difference to Brexit



*Angela Merkel cannot govern alone. **John Ryan (LSE)** explores the difficult task she faces in pulling together a coalition, which will probably be a three-way affair between the CDU/CSU, the Greens and the FDP – a so-called 'Jamaica' coalition. Emmanuel Macron's plans to reform the Eurozone are likely to prove a flashpoint. But the arrival of Merkel's governing partners is unlikely to make a material difference to Brexit.*

Angela Merkel's fourth election was a heavily qualified victory. Opposition to the chancellor's decision to let in more than a million refugees is more widely felt in Germany than the election coverage reflected. It shows not only in the rise of the rightwing Alternative für Deutschland (AfD) party, but also in the flight of voters from Merkel's Bavarian sister party, the CSU.

Merkel will not be able to govern alone. The FDP and Greens, who have differing views on Eurozone reform and Brexit, will contribute to shaping Berlin's Europe policy after the election. An unprecedented seven parties were in line to have seats in the Bundestag: the four smaller parties – the leftist Die Linke, the liberal Free Democrats (FDP), the Greens and the right wing AfD, as well as Merkel's conservative Christian Democrats Union (CDU) and her Bavarian allies the Christian Social Union (CSU) party and the Social Democrat Party (SPD).



An FDP placard shows Christian Lindner, who is likely to be a key figure in a 'Jamaica' coalition.
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In the pre-election parliament, the CDU/CSU and the SPD held 80% of the seats in the Bundestag, with the Greens and Die Linke holding the rest. Before the election, the executive was strong and the legislature was weak. The election outcome has changed that.

A minority government is an outside possibility if neither the Greens nor the FDP agree to a coalition with the CDU/CSU. Merkel could also form a minority government supported by all three (the FDP, the Greens and the SPD). This would be a first at the federal level, and would make governing a lot harder for her, as she would have to find changing majorities for her policies. In times of crisis, however, she would probably be able to count on the FDP, the Greens and the SPD to back her – as the SPD did, for example, during the Euro crisis, when Merkel's black-yellow coalition at the time failed to get a majority for the second Greek bailout. A minority government would allow the Greens, the SPD and also the FDP to maintain an independent profile, and its leaders to fight the CDU/CSU from the opposition benches in 2021.

A three-way 'Jamaica' coalition would be a tense affair

But a three-way coalition with the colours of the Jamaican flag — CDU/CSU, FDP and Greens — is the most likely outcome. Such a pact has existed since June 2017 in the Schleswig-Holstein region. Despite their origins as a left-wing environmentalist party, the Greens have moved increasingly to the centre of Germany's political landscape and have become a realistic coalition partner for the CDU/CSU. However, tensions between Merkel's Bavarian ally the CSU and the Greens over migration policy would make such a coalition difficult. Still, if Merkel were to lead such a Jamaica coalition it would show how far the Christian Democrats have moved to the centre, if not to the centre left, under her leadership.

Yet the task of tempting Greens, Christian Democrats, out-of-sorts Bavarians and pro-market Free Democrats into an alliance — let alone keeping them there — looks like an uphill struggle. Even if it works, the resulting Cabinet tensions will be massive.

The FDP has resurrected itself in the election at federal level with 10.7% under the guidance of its leader, Christian Lindner. Lindner's call for Greece to exit the Euro appealed to some CDU voters and limited his party's possible losses to the AfD. German industry — which has poured money into the FDP — sees it as worthy of ruling once again, in coalition with the CDU/CSU and the Greens.

The Greens received only 8.7% of the vote, despite several environmental scandals this summer which should have been gifts to their profile and vote share. The party has always been divided between a more fundamentalist left wing and pragmatists like the former vice-chancellor Joschka Fischer, who helped to get them into power. But they managed to stay united for the sake of political expedience. However, the party has been split over whether to become a sort of eco-CDU (following Winfried Kretschmann, the party's most successful leader and only Green state prime minister in the CDU's heartland, Baden-Württemberg) or to maintain its left-wing credentials and remain a green version of the social democrats. A coalition with Merkel and the FDP would cement the party's shift in the former direction, but alienate many of its left-leaning voters and members. The left wing of the Greens would probably become more vocal in the Jamaica coalition negotiations.

The implications for Greece, the Eurozone and Brexit

A coalition between the CDU/CSU, FDP and Greens would make Eurozone reform less likely. It would push the CDU/CSU to double down on its calls for fiscal discipline. Lindner has claimed the finance ministry for his party — and going by his statements in the election campaign, not much has changed in the FDP's tough position on Greece. (Finance minister Wolfgang Schäuble's exit could make it more likely that the finance ministry will go to the FDP.) Lindner believes Greece should exit the Eurozone, though without losing its EU membership. He made clear on election night that any Eurozone reform that entailed major fiscal transfers as part of a Eurozone budget and cost Germany money would be "a line in the sand".

He is also sceptical about French plans for a billion-euro budget for the Eurozone. Emmanuel Macron wants a common Eurozone budget, a European finance minister and a Eurozone parliament, and he thinks Germany and the EU should boost investment. The CDU/CSU are also doubtful about Macron's proposal because they place a premium on sticking to the Eurozone's fiscal rules, and oppose proposals that could usher in debt mutualisation. Lindner has warned that there should be no "friendly gifts" to France that threaten European stability.

The Greens, on the other hand, have embraced the French president's reform proposals; they want an end to austerity and a European 'investment offensive'. Merkel, meanwhile, knows that Germany and France need to work together closely to provide the leadership Europe needs. Her next coalition partner(s) will determine whether she has enough leeway to compromise with the French.

So when Macron proposed deeper Eurozone integration on 26 September – only two days after the German election – he was aware his words would be scrutinised. Even before the German federal election, Berlin had ruled out euro bonds (shared borrowing across the Eurozone). Germany also puts more emphasis on enforcing financial rules in its discussions about a European monetary fund, a vehicle to replace the existing bailout mechanism. Macron acknowledged these concerns in his speech, saying Eurozone reform was “not about mutualising our past debts or solving the financial problems of one country”.

In a defiant message to the FDP, which had warned of “red lines” during the same week, Macron said: “I don’t have red lines, I only have horizons.” He was nevertheless cautious on Eurozone reform, reflecting the new reality after the German elections. The European commission in early December 2017 will publish proposals for a Eurozone finance minister and other reforms. EU leaders will discuss the ideas at a summit later that month.

Meanwhile, another important state election in Lower Saxony is due on 15 October. All Merkel’s potential coalition parties will try to avoid being seen to compromise too much, because this might impede any substantial progress in coalition talks.

The ongoing uncertainty based on this unruly potential four-party coalition means there will be limited Eurozone reform and renewed tensions with France and Greece, especially if it is forced to leave the Euro. But the change in composition of a Merkel government is unlikely to have a material impact on Brexit. A Jamaica coalition will continue the efforts to avoid a hard Brexit, but ultimately – it is important for the UK government to recognise – if hard decisions have to be made, it will put the EU first.

This post represents the views of the author and not those of the Brexit blog, nor the LSE.

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