Germany – 2017 Elections

A lingering feeling of unhappiness

On the basis of the data we collected in Germany over the course of July and August 2017, and our own analysis, we expect the upcoming federal elections to deliver another mandate to Chancellor Merkel, but the currently ruling parties, CDU and SDP, are likely to emerge weakened compared with the 2013 election.

Foreign press attention surrounding this election has focused on the strength of far-right party AfD and its likely entry into the next federal parliament. Our impression is that AfD will indeed make it into parliament, but that this will not be the only – nor the biggest – surprise relative to expectations. We believe that the real winner of this election may well prove to be Die Linke – the far-left party – and that the Greens and FDP will also fare better than in 2013.

Whether the election results will show a better performance from the “bolder” left-wing parties (Die Linke and Greens) or the smaller right-wing parties (AfD, FDP) will have significant long-term implications for taxation in Germany and for the European Project, in our view. A left-wing win would signal a strong emphasis on income inequality, leading to a tax cut for people in the lower income brackets and a tax increase for high income earners and companies; while a right-wing win would imply growing pressure for tax cuts, particularly for households, in our view.

A strong performance from AfD is likely to be interpreted by financial market participants as a worrying sign of growing Euroscepticism even in the very core of Europe. However, we did find that a desire to spend more energy on German domestic policies was common among voters spanning all party support.

We found that enthusiasm for the EU was higher than we had noted in Italy or France, but a high share of the population regrets the Euro versus the Deutschmark (DM), often linking it to a perceived high cost of living compared to the DM days and objections to the ECB’s performance. A high share of people were conflicted over this issue (40%). We see this as a worrying signal that an effective anti-Euro campaign could be successful, given that the undecided voters’ attachment to the Euro was low, in our view.

What is the average German willing to do to nourish the European Project? Fiscal union and full regulatory equivalence are seen as undesirable and/or unviable by the vast majority of those we spoke with. The creation of a European military was better received as a future next step, but still rejected by the majority.

Our conversations about German unification raised two alarm bells for us with regards to Germany and its relationship with the EU. First, economic unification was demanding for both sides and, less than 30 years later, many felt that the process was still incomplete, but the appetite for continuing financing it is running out. Equally importantly, those in the minor cities of the East were concerned about there being few employment and business opportunities, youth emigration and too few businesses. Sounds like déjà vu…

Raffaella Tenconi, September 2017

How to use this report

This report is based on ADA's proprietary small data survey technique, which is a methodology for gathering local information primarily about government policies and voters' political views. We have developed and perfected this technique over the past year and a half, testing it in various ways during the UK EU referendum (2016), the US presidential elections (2016), the Italian Constitutional referendum (2016), the French presidential elections (2017) and the UK general elections (2017), and we have also used it for other EU countries. Our methodology has consistently outperformed the standard opinion polls providing the correct prediction for the election result and by signalling shifts in voters' support sometimes months ahead of the more widely available opinion polls. Our sample as of today is of 500 people in various European countries.

We have built our small data surveys to create a standardised methodology to assess political shifts, as well as the effectiveness and implementation of macroeconomic and fiscal policies. Our methodology has proven successful in correctly predicting major shifts in opinion polls and perhaps even more importantly, the insights we gather have a long shelf life as, de facto, we look for signals about emerging long-term trends (positive or negative) in a given country.

"Small data" means that our sample is smaller than a normal opinion poll, and much smaller than the much discussed "Big data" methodologies used to infer consumer trends, for example. However, what we lack in size, we make up for in content as we spend significant amounts of resources, strategy and time on gathering evidence on what people think and why, what they are experiencing and what they perceive to be a likely or desirable outcome.

We are confident that you will find our findings interesting and useful. We believe that you should see this report as complementary to opinion polls/big data analysis/country reports provided by international institutions and any other type of research you use currently.

We welcome your feedback so that we can keep on improving our service!

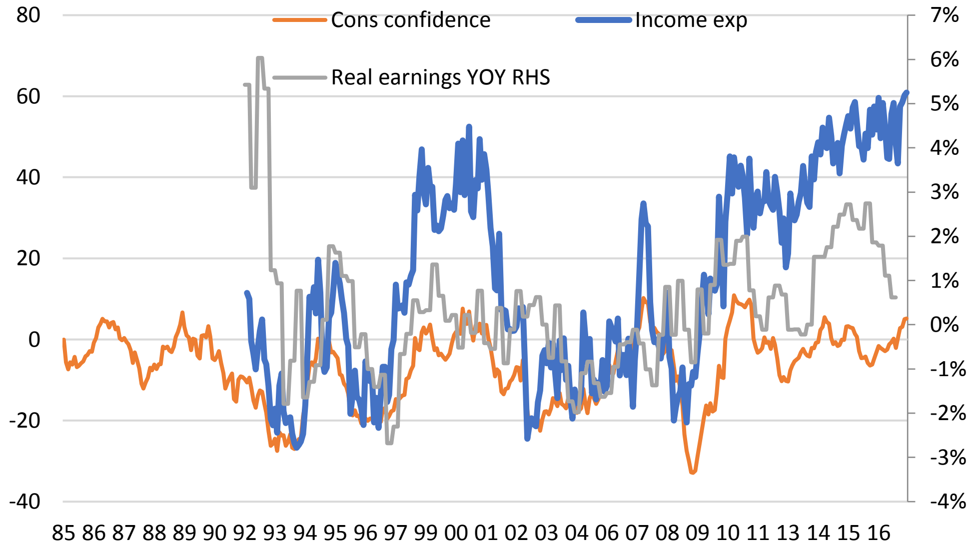
The status quo – what the data say about Germany currently

Federal elections results and outlook for the upcoming poll

%	2002	2005	2009	2013	current polls	2017 ADAe
CDU/CSU	38.5	35.2	33.8	41.5	36-38	37
SPD	38.5	34.2	23	25.7	20-23.5	20
Left (Die Linke)			11.9	8.6	9-11	15
Greens	8.6	8.1	10.9	8.4	6-9	10
FDP	7.4	9.8	14.6	4.8	8-10	8
AfD				4.7	9-11	10
PDS	4	8.7				

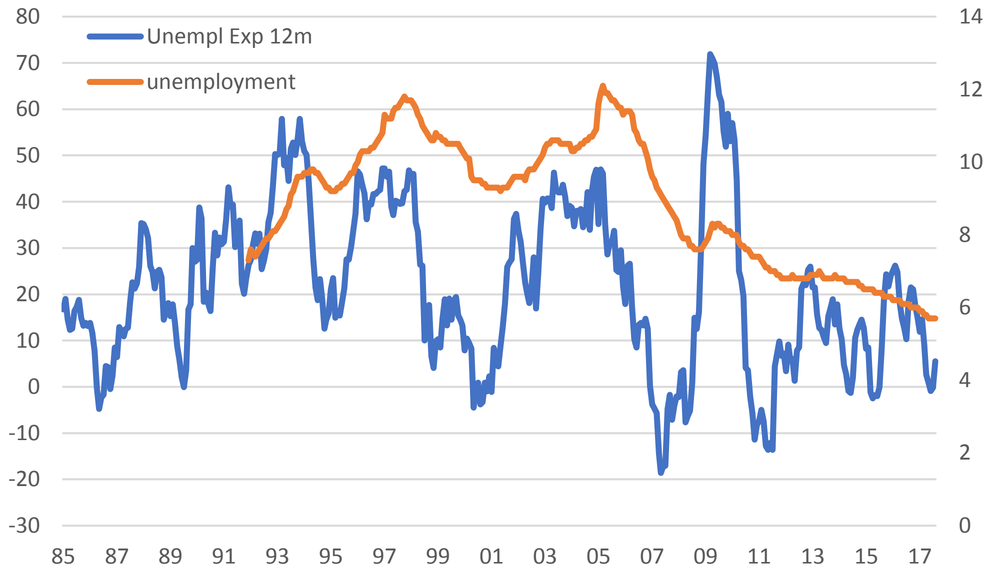
Source: Wikipedia, ADA Economics Ltd.

Consumer confidence and income expectations



Source: Macrobond, ADA Economics Ltd

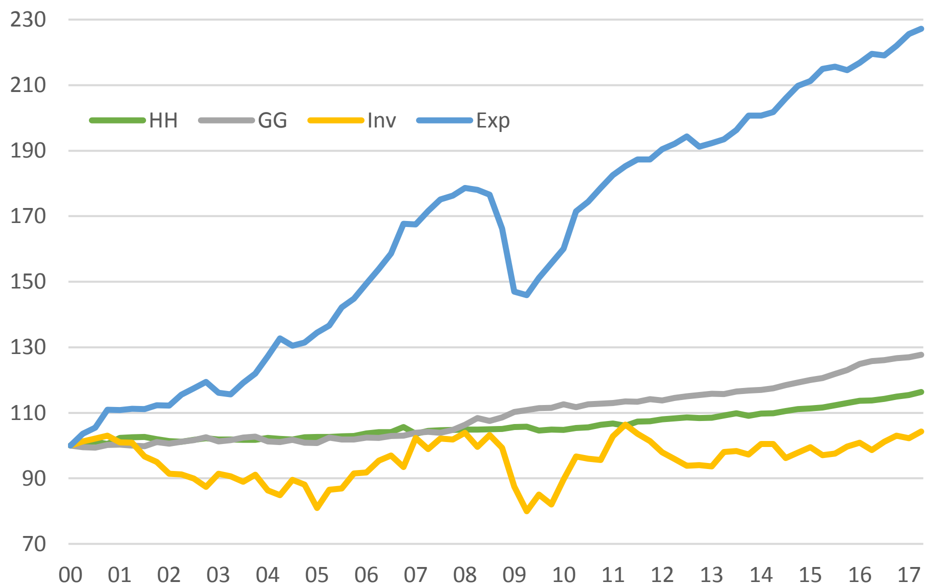
German households unemployment fears: low but not particularly low



Source: Macrobond, ADA Economics Ltd.

Notes: gross profits as provided in the national accounts dataset indexed to 2006Q1=100

Changes in the key components of GDP: exports and government spending fared better than consumption and investment in the last decades



Source: Macrobond, Constant prices, chained linked sa data, indexed 2000 Q1 =100

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Merkel 4.0 about to start – a victory that masks dissatisfaction

Our field study highlighted three strong trends: 1) Merkel is well-positioned to continue to lead, but her current policy ideas are losing the support of the majority. 2) Despite the strong economic performance, the majority of Germans in our sample were dissatisfied with the government, concerned about the direction of the economy and showed remarkably low attachment to the EU and the Euro. 3) A certain malaise seems to be lurking in the background as a result of too many years of stagnant purchasing power by many and a perceived solo effort to keep the European Project running.

We asked people about the unspeakable: what they thought about the German unification and whether they would suggest parallels with the European union project. The majority of responses we collected reported some satisfaction with the unification project, but also underscored the high cost that both sides – east and west – are reported to have borne. Most did not see any parallel between unification and Europe, but their answers nevertheless highlighted that there is a limit to how long fiscal transfers between two areas are tolerable from the point of view of citizens/voters/taxpayers.

Merkel: even those that do not share her views see her as a genuine leader

Chancellor Merkel's party CDU(/CSU) is the most popular, but it is losing strength relative to the previous election. Merkel is appreciated by voters across the income distribution and age spectrum, polling even among the segments of society that would, at first, appear "better off" with the more left-wing parties thanks to her courage on some decisions (so she is seen as a credible leader even by those that disagree with her views), as well as her perceived "safe delivery" of macroeconomic policies. That said, in our sample, only one-quarter of respondents claimed to be satisfied with the current government, and only one-third thought that the economy was moving in the right direction in the long term. Therefore, Merkel's stewardship does not seem to be convincing the electorate completely after all.

The ruling coalition partner of CDU, SPD, is under significantly more pressure in a way observed already in many other countries: the socialist view is simply not perceived as bold enough, not close enough to the "average" guy and not credible in its delivery. In our view, the biggest beneficiary of the SPD's demise and the key surprise of the upcoming election will be the strong support for Die Linke – which may double relative to the 2013 election result. In our view, AfD is likely to poll below 12%, undershooting the current opinion polls predictions. We do not rule out an upside surprise, but we find it far more unlikely than the international press is suggesting. We expect the Green party to fare better than in 2013, at around 10%, and we expect the liberal FDP party to return into parliament this time – with a reasonably good performance of around 8%.

What is wrong with this government? Money, health and the business environment

The most frequent complaints about the current government were related to low purchasing power: too low minimum income and low wages more generally – people complained that their incomes have not kept up with prices, and they were particularly upset by the strong rise in rents recently. Single mothers noted a recent modest rise in child benefits, but complained it was still very difficult to make ends meet. A very vocal complaint was also related to the healthcare sector, which is seen as underfunded and increasingly expensive for a segment of the population. We also found people who complained about insufficient support for small companies – this was not as dominant as what we found in Italy or France, but nonetheless a repeated answer particularly in those parts of the country close to a border (particularly with Belgium and Poland).

On a more constructive note, those claiming to be satisfied with the government did so for three reasons: 1) they were students, who reported comfortable studying and living conditions; 2) they had a job paying more than the minimum wage (usually not those with the “mini” jobs); or 3) they were satisfied to have seen the government taking steps forward in terms of protecting and extending gay rights.

Policy priorities for the future

Similar to many other EU countries where we have conducted similar studies, voters stated that the next government’s priority should be to invest more in healthcare, continue supporting schools and stop immigration. In contrast to the other countries we visited, however, there was a very strong message about increasing wages, particularly the minimum wage, and also, importantly, removing the temporary work agents, who were seen by most as employing abusive policies. A reduction in taxes was also seen as important, as well as shifting to a strategy of “Germany first”.

High GDP growth masks widespread concerns about the direction of the economy

To a very open question such as “do you think the economy is going in the right direction”, two-thirds of people said no. The most frequent concern we heard was about the growing income inequality, often frequently associated with concerns about the risk of poverty of the elderly. Too high rents were also a frequent complaint in the bigger cities; while, in the smaller towns – especially, but not exclusively, in the Eastern part of the country – people noted that there were few good work opportunities and they were worried about their jobs being outsourced abroad. A perceived inequality between those earning little and those on income benefits (Hartz 4) also upset a significant share of low earners, as did the perceived unfair growing inequality of the tax burden borne by SMEs compared with large or uber-large companies.

Although most people do not see digitalisation or the rise of robot-only production as a genuine threat to their lives, many underscored that, in their view, the economy was underinvesting in digitalisation services, and the car sector was perceived to be losing market leadership globally. Germany was seen to be in need of more efforts to nourish the green economy, and the US presidency was mentioned as a source of concern for the future.

The EU as a positive influence on life: 40% think so, 20% disagree, and 40% are torn

We found remarkably weak attachment for the European Union – and the Euro – compared with what we expected to hear. 40% of those we interviewed were convinced that the EU was an important positive influence on their lives because of the opportunity it provides, the peace it nourished among neighbouring countries and it helped Germany stay competitive. A further 20% was instead firmly against the EU: perceived to be focusing on unnecessary regulation, burdensome for Germany and overall too far from the needs of the people. A further 40% reported mixed feelings: either a declining attachment to it, or limited knowledge about what the EU represents and offers beyond easier travel conditions within the union.

Many regret the loss of the Deutschmark, because of the drop in the purchasing power

We asked people around the country whether they regretted having the Euro, and 29% of those we spoke with said yes. We note that we did not ask whether they would vote for a return of the DM, which is a slightly different issue. We asked why they missed their old currency, and most people mentioned the higher purchasing power before the Euro – prices were perceived to be lower and living standards higher. Admittedly, older generations, on the margin, are more melancholic about this topic than most, but DM nostalgia was also frequent among those above 30-35 years old. 46% of those we asked felt strongly about their satisfaction with the Euro, while the remaining part of the sample was neutral on this issue.

Some of the answers we gathered elaborated on the malaise surrounding the current government, but were related to dissatisfaction with incomes, healthcare, support for SMEs and inadequate investments to keep the economy competitive in the light of growing digitalisation.

Priorities for the EU

The priorities for the EU should be to support non-discrimination, values and preserving the identity of countries, according to the answers we gathered. Voters also mentioned the importance of cutting inflation, reducing bureaucracy and avoiding tax dumping within the union. A minority of people thought that the EU's priority should be to find a way to dismantle the project at a minimal cost and to stop the expansion of the union to eastern countries.

We tried to survey voters' perceptions about three potential extensions of the EU: polling tax revenues, uniform regulation, and the creation of a European army. We found strong resistance to the first two options across geographical locations and income levels. Most people found either option either undesirable or unfeasible, or a combination of both. The possibility of a EU military force was better received, on the margin, although still not supported by the majority of respondents.

Economic solidarity seems to have a time limit

We discussed people's perception about the success and stage of "development" of the German unification process, and then tried to assess whether there were some precious lessons to be learned for the European Union as a whole. Our first finding is that both sides (east and west) underscored that it was a very complex project, which was successfully implemented, by and large, but not completed. Those in the East reported a lack of opportunities, which undermined the economic conditions of many parts of the country. Those in the West noted the monetary cost of the adjustment, and many felt it was time to end the solidarity tax (as promised by Merkel).

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