



Greens' convention – closing the ranks but little new impetus

- The Greens displayed strong unity at their party convention over the weekend. The delegates confirmed the nomination of Annalena Baerbock as chancellor candidate and party leader (in tandem with Robert Habeck) with 98.5% and approved the election manifesto by the same margin.
- An ambitious climate policy lies at the heart of the Green election manifesto. As the current government has recently adjusted CO2 reduction targets and introduced a national CO2-price, this is hardly a unique selling point anymore. Overall, the Greens do not believe too much in the “green invisible hand” of the free market (i.e. price signals), but in a set of administrative and regulatory measures (e.g. ban of the combustion engine by 2030).
- To finance their policy proposals the Greens put forward a three-fold proposal: reform of the debt brake, abandoning environmentally harmful subsidies and higher taxes for top earners and wealthy. All of them are politically difficult to realize and unlikely to provide sufficient funding.
- We stick to our baseline call of a conservative-green coalition after the September elections. Although in the final months of the election campaign differences are emphasized, both parties have come a lot closer over the past few years. Nevertheless, a black-green coalition will require compromises on both sides, most likely on climate policy for the CDU/CSU and tax policy for the Greens.

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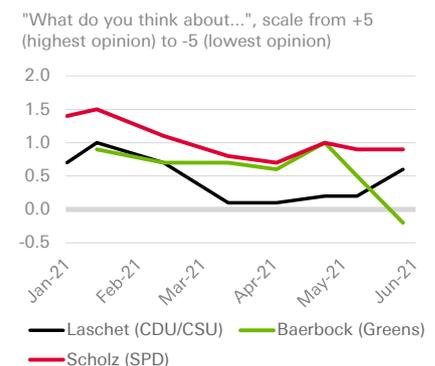
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Insights from the party convention

Baerbock – still the darling of the party base but electorate somewhat disenchanted. The Green party convention over the weekend confirmed Annalena Baerbock's candidacy for chancellorship, announced in mid-April. She (in tandem with co-frontrunner Habeck) received 98.5% of the delegate votes. The party (incl. senior people such as Baden-Wuerttemberg's PM Kretschmann) stands firmly behind her and wants to seize the historical chance of beating the Conservatives in the quest for the chancellorship. The impressive long-term rise of the party in the polls is the result of the Greens' programmatic shift towards the political centre. Still, the goal of leading the next government seems to have become harder to reach over the last couple of weeks as polls suggest a certain disenchantment of the electorate with the party and its frontrunner (see Figure 1). A mere 28% still regard Baerbock a suitable candidate for chancellorship (versus 43% in May, Politbarometer). The intensifying election campaign, in which Baerbock has become the centre of criticism because of inconsistencies in her CV and retrospectively declared allowances from her party, left its mark in the Greens'

Figure 1: Baerbock's recent loss in popularity



Source: FG Wahlen, Politbarometer



polling results. The current trajectory of their approval rates matches the historical pattern of short-term spikes in voter preferences as analyzed in [our recent report](#): approval rates tend to mean-revert back to trend within a couple of weeks (see Figure 2 and 3). Baerbock delivered a solid speech at the convention, but observers and media deemed Habeck's speech the day before more impressive and chancellor-like – which confirms that Habeck will play a pivotal role in the Greens' election campaign (and beyond that). Still, 77% of the Greens' supporters regard her as a good candidate (85% in May). The Greens' overall profile has been raised by the debate about them potentially leading the next government. While 33% of voters thought they would be fit for this role last November, the share has now risen to 44% (Politbarometer).

Green election manifesto – more left than center. The genesis of the final election manifesto has led to expectations that the chasm between the more left-wing party base and the more pragmatic leadership could resurface. This was fueled by the 3,280 amendments that the party base has proposed ahead of the convention. But in the end, the party displayed strong unity and adopted the election manifesto with 98% and only minor changes. More "radical" suggestions such as an unconditional basic income, no more repatriation of migrants, the abolition of the debt break or a higher CO2 price fell short of support or were voted against providing relief for the pragmatic party leadership. Moreover, compromises on other points (e.g. the possibility of introducing a rent cap in regions with particularly tight housing markets), had been hammered out ahead of the convention and included in the draft manifesto. Still, the Greens' election campaign and coalition negotiations will remain a balancing act between pursuing their core policy proposals while avoiding to scare the political mainstream (as was recently the case with gasoline prices). Baerbock's speech emphasized the social elements of the manifesto such as a minimum wage of EUR 12, higher Hartz IV and a basic income for children. She promised to compensate not only households but also corporates for the costs of becoming climate-neutral ("pact with the industry"). Probably that was also meant as response to allegations from political competitors (incl. FDP and CDU/CSU) that the Greens' proposal would imply too high social costs. A recent ARD Deutschlandtrend revealed that voters broadly support climate goals but few want to shoulder the extra costs those measures will bring.

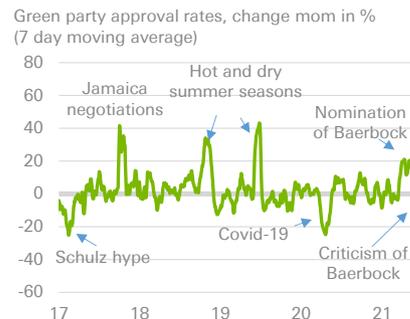
Climate change remains focus ...

Green climate policies: sticking to very ambitious timeline and pricing. The transformation towards an eco-social market economy lies at the heart of the Green election manifesto. The proposed tools to reach that target are public investment programs, state subsidies and regulation (bans, limits, quotas, production standards). The Greens deliberately do not focus too much on the efficient instrument of (higher) CO2 prices. Moreover, they almost completely neglect the trade angle of climate policies, i.e. how to address potential carbon and investment leakage in an export-oriented economy like Germany.

In more detail, the Greens are sticking to their already very ambitious timeline/pricing with respect to climate and energy policy measures such as:

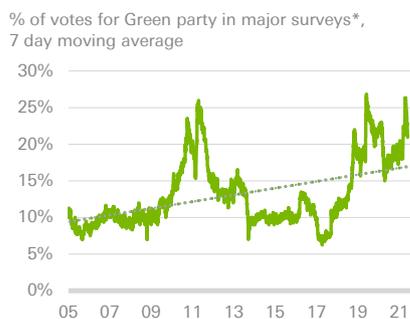
- Reducing GHG emissions by at least 70 per cent in 2030 relative to 1990 level (more than -50% versus the low level of corona year 2020) and raising the CO2 price in Germany to EUR 60 already by 2023 for emissions outside the EU ETS. As the current government has recently adjusted the reduction target to -65% this is hardly a unique selling point anymore. The same holds true for the CO2 price increases. The current system started at the

Figure 2: Fading of the Baerbock hype



Source: Wahlrecht.de, Deutsche Bank

Figure 3: Approval rates mean-reverting back to trend



Note: * major political surveys taken into account: Allensbach, Kantar, Forsa, FG Wahlen, Infratest, INSA.
Source: Wahlrecht.de, Deutsche Bank Research



beginning of this year with a current price of EUR 25, which is envisaged to increase to EUR 55/ton by 2025.

- A plethora of administrative and regulatory measures (like the compulsive installation of solar panels on all new buildings). Overall, the Greens do not believe too much in the “green invisible hand” of the free market and have a clear bias towards electrification (as opposed to other technologies like hydrogen).
- Heating and transportation account for the bulk of energy consumption and emissions. How to quickly electrify the stock of buildings and large parts of the existing fleet of vehicles (without restraining mobility and demand for heating) remains largely unanswered. This holds true for all the other parties as well. Concrete plans by the Greens (e.g. 2m new heat pumps, ban of combustion engines until 2030) would lead to reductions falling massively short of the ones needed to comply with the ambitious 2030 targets.

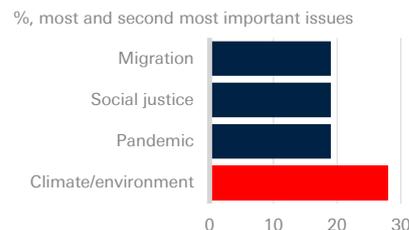
How to mitigate the distributional aspects of climate policies will remain a hotly debated issue among all parties. The Greens propose per capita payouts of CO₂-price earnings to the tune of EUR 75 per year and lower electricity prices for households via a reduction of the renewables mark-up “EEG-Umlage”. The Conservatives, however, want to abandon the EEG altogether and keep the existing compensation of commuters (“Pendlerpauschale”). The SPD is calling for measured pace with respect to the lifting of the CO₂-price in the first place. So far, there are no signs of a German “gilet jaunes” movement emerging, but the recent debate about gasoline prices has shown how sensitive the topic is amongst the electorate and could turn out to be quite explosive in the years to come.

... and related fiscal questions remain unanswered

Reform of debt rules on national and EU level. In her 40-minute-speech Baerbock did not touch upon the issue of how to finance the ambitious investment, climate and social targets a single time. This is quite remarkable given that state support in the wake of the pandemic has left the coffers of the finance ministry empty. Co-chair Habeck addressed some of the fiscal-related topics in his speech on the convention, though. The election manifesto entails a tri-fold proposal, which is likely to face resistance when it comes to actual implementation:

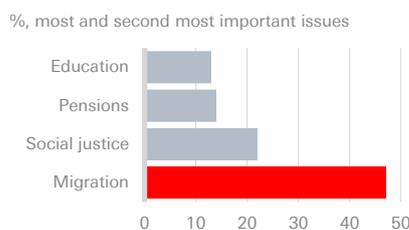
- Reform of the debt brake, allowing for more investments in the sense of a golden rule. This is not only a theoretically difficult concept as has been proven in the past and in the end led to new debt rules. It is also difficult to achieve given that constitutional change requires a 2/3 majority in the Bundestag and the Greens are the lacking support from other major parties incl. the SPD.
- Removing environmentally harmful subsidies (e.g. for Diesel or in aviation) which the Greens estimate to amount to around EUR 50bn per year.¹ That will face resistance and will, if politically feasible at all, take time. The Greens count on freeing up EUR 10bn in a first step.
- Introduction of a wealth tax of 1% for disposable assets exceeding EUR 2m (with the exception of entrepreneurs). Also top earners should contribute more through higher taxes (see box) which Habeck defended in a TV interview (ZDF June 14) as being applied only to a smaller extent to

Figure 4: 2021 - Climate/environment as key concern of voters



Source: ARD Deutschlandtrend, June 10

Figure 5: 2017 - Migration as key concern of voters



Source: ARD Deutschlandtrend, June 10

Figure 6: Green tax reform proposals in detail

Income tax	<ul style="list-style-type: none"> • Raised tax allowance to reduce tax burden on small and middle incomes • 45% from EUR 100,000 for a single person / 200,000 for a married couple (currently 42%) • 48% from EUR 250,000 for a single person / 500,000 for a married couple (currently 42-45%)
Capital gains	<ul style="list-style-type: none"> • Abolition of withholding tax for capital gains that should henceforward be fall under the progressive income tax
Wealth tax	<ul style="list-style-type: none"> • 1% for disposable assets exceeding EUR 2m (with the exception of entrepreneurs)

Source: Green election manifesto

¹ That corresponds with data from the Umwelt Bundesamt (Federal Environment Agency) that report environmentally harmful subventions of EUR 57bn for 2012 (latest data).



individuals (but self-employed and firms). He pointed out that revenues will be used to finance tax reliefs for small and middle incomes (higher tax allowance) which the Greens propose in their election manifesto. Thus question marks remain over how much additional funds can be tapped in the end to finance climate change investment and distributional policy.

With respect to EU fiscal policies, the Greens support the reform of the fiscal rules of the SGP and additional efforts on the EU level for investments. In addition, they call for the transformation of the NGEU into a permanent fiscal capacity, more resources for the EU budget (incl. digital tax, FTT, CBAM) and majority decisions in the Council for fiscal matters ([for more details see recently published Green paper on EU fiscal policy](#)). In our view, it will be rather challenging for the Greens to win coalition partners at home (or foster unanimity at EU level), let alone convince the general public for such a drastic change in Germany's fiscal stance and solidarity on EU level (see Figure 7).

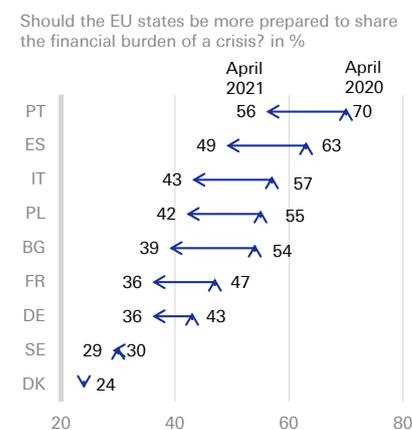
The Comeback of the Conservatives, coalition options remain stable

Greens falling behind the Conservatives in polls – but don't write them off. After a flying start into the election campaign, the Greens (21%) have lost their temporary lead over the CDU/CSU (27%) in the polls (see Figure 8). The stronger scrutiny by political competitors, media and the public alike has made the road into the next federal government bumpier than hoped. But the Greens can still regain momentum over the next few months, for example due to a hot summer, the resurgence of climate protests and a public perception that change is a precondition to modernisation. However, the competitors of the Greens are also depicting themselves as champions of modernisation. Despite being in power for the past 16 years, the CDU/CSU seems to be trying to portray themselves as modernizers, too. Last week its parliamentary group in the Bundestag published a [position paper](#) calling for a "new start" of the German state. It is expected that some of the ideas will resonate in the long awaited CDU/CSU election manifesto, likely to be presented around June 21. The FDP considers itself among the progressive forces, too. Selling itself as a viable centre-right alternative, the party has continuously moved up in the polls over the last months, now polling at 12.5%. Tellingly, the recent movements in the polls took place between these three parties, for example quite a large share of CDU/CSU supporters considering to vote for the Greens (25%) or FDP (18%) instead. In turn, 38% of FDP voters would also vote for the CDU/CSU, whereas the Green voters would rather turn to the SPD (29%).² Interesting, though, that the Greens' setback did not benefit the SPD but the Conservatives in the polls, which confirms that there are a significant number of swing voters between the Green and the CDU/CSU.

Black-green coalition remains most popular and most likely. We stick to our baseline call of a black-green coalition after the September elections. This is still the most popular option among the electorate (see Figure 9), though a little bit less so. Although both parties have come a lot closer in terms of their policy platforms, forming a black-green coalition would require painful compromises on both sides. In particular, the implementation of climate targets (market-based instruments vs. focus on regulation), fiscal policy (stick to or reform the idea of a debt brake, taxes) and social policy (cost-effective reforms vs. expansionary policies) will likely remain the bone of contention. By the way, the same holds true for a coalition of the Greens-

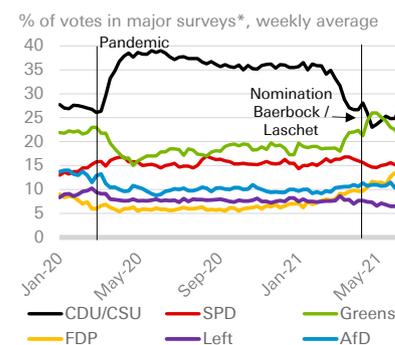
² Konrad Adenauer Stiftung, 2021, Des Wählers Herz, Emotionale Parteienbewertung aus repräsentativen und qualitativen Umfragen.

Figure 7: Waning European solidarity as pandemic draws to a close



Source: ECFR, How to prevent Germany from becoming Eurosceptic, June 2021

Figure 8: Popularity of major political parties since COVID-19 outbreak



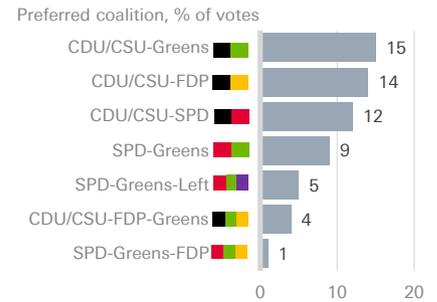
Note: * major political surveys taken into account: Allensbach, Kantar, Forsa, FG Wahlen, Infratest, INSA.
Source: Wahlrecht.de, Deutsche Bank



SPD-FDP, the dream scenario for the Greens. Both the SPD and FDP would find it difficult to compromise given the diametrically different expectations of their voter base. While the FDP would be expected to be the liberal, market-focused counterbalance to the two more centrist-left partners, the SPD would probably insist on a strong social element. Based on current polling results, the left-wing coalition with the SPD and the Left (favoured by Green voters) is no longer a realistic option. In the aftermath of the Greens' convention, the Conservatives' chancellor candidate Laschet again voiced his preference for a CDU/CSU-FDP coalition, presumably to avoid the impression that a black-green coalition is a foregone conclusion. This preference might not be shared by all party members, though, and it is lacking 10ppt in the polls to become a realistic option. We also attach a very low probability to the recently debated new form of a centre-right "Germany coalition" (CDU/CSU-SPD-FDP). One should also bear in mind that party manifestos should foster coherence of a party and above all serve as a vehicle for election campaign - a negotiated coalition agreement is a completely different story. It is the nature of election campaigning to emphasize differences rather than similarities.

We would like to thank Ursula Walther and Jenny Franke for their valuable contribution.

Figure 9: Strongest support for a conservative-green coalition



Source: FG Wahlen, Politbarometer, June 10



Appendix 1

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