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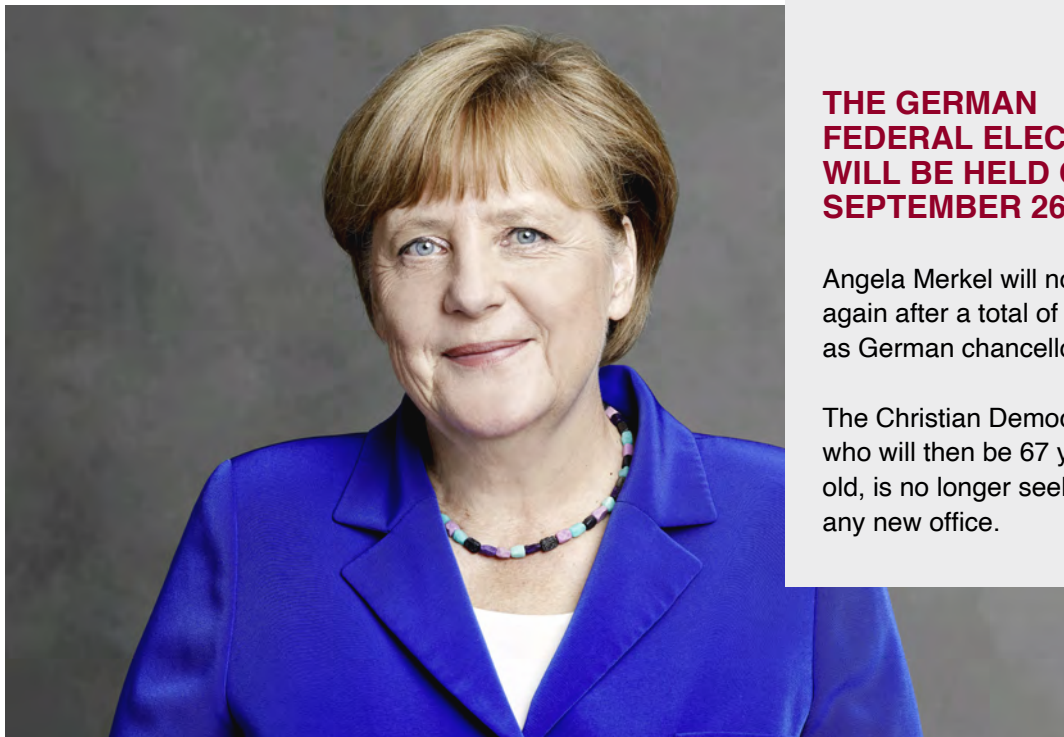
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# WHO WILL SUCCEED ANGELA MERKEL?



## THE GERMAN FEDERAL ELECTION WILL BE HELD ON SEPTEMBER 26, 2021.

Angela Merkel will not run again after a total of 16 years as German chancellor.

The Christian Democrat, who will then be 67 years old, is no longer seeking any new office.

It is not certain that her party, the Christian Democratic Party (CDU/CSU), will be able to provide the chancellor again. Instead, an alliance of left-wing parties is also conceivable. **It appears likely that the Green Party will either be part of or even lead the government after the election since climate protection continues to play a strong role in the election campaign. The economic and social aftermath of the Corona pandemic is a another major issue.**

The often very long office terms of German chancellors show the country's great political stability. But at the same time, the situation has been increasingly volatile for some years. Currently, there are six parties in the Bundestag, as opposed to only three or four in the past. **Forming governments has become more difficult and coalitions have become more fragile.** Angela Merkel was recently only able to govern with a so-called "grand coalition" consisting of CDU/CSU and Social Democrats (SPD). However, the SPD's base strictly rejects a renewed coalition. Moreover, the two parties which have long dominated the political scene, might not even have a majority together after the election.





## ■ ■ ■ WHO WILL SUCCEED ANGELA MERKEL?



The formation of a government is therefore expected to be complicated. Many different constellations are possible. Solely a cooperation with the right-wing populist party “Alternative für Deutschland” (AfD) is strictly rejected by all other parties. **The AfD has been in the Bundestag for four years and has increasingly radicalized during that time.** Many of its members and officials cooperate with right-wing extremist movements and with Corona deniers. Currently, the AfD is at around ten percent in the election polls, slightly less than in the last election.



**German citizens cannot directly elect the chancellor**, but the parties, which then provide the chancellor. Nor does the strongest party automatically provide the head of government, rather the one that can lead a coalition. **Three parties currently have a chance of doing so: the “Union” consisting of the CDU and its Bavarian sister party, the CSU, the Greens and the SPD.** Only these three have also put forward candidates for the chancellor’s office.

However, not just due to the coalition partners involved, a chancellor’s influence is limited. **She or he needs the approval of the chamber of the federal states, the Bundesrat, for more than 40 percent of all legislations.** This includes the federal budget. Since all parties except of the AfD are involved in some of the 16 state governments, German politics traditionally relies on many compromises. Therefore, a radical change of the political course seems unlikely, even after the Bundestag elections in September.

# WHO ARE THE CHANCELLOR CANDIDATES?



## WHAT ARE THEIR PROSPECTS?



## ■ ■ ■ WHO ARE THE CHANCELLOR CANDIDATES – WHAT ARE THEIR PROSPECTS?

**ARMIN LASCHET**

Laschet is a member of the CDU and has been Minister President of North Rhine-Westphalia, Germany's largest state, for four years. The 60-year-old politician from Aachen in the Rhineland is a committed Catholic. He studied law and worked as a journalist for church media. He is married and has two grown-up children.

**Laschet is a supporter of Angela Merkel's liberal political doctrine.** Earlier this year, after a tough intra-party election campaign, he prevailed against two competitors: First as CDU chairman and then also against the chairman of the Bavarian sister party CSU, Markus Söder, as the joint chancellor candidate of the two Union parties. Nonetheless, the power struggle did cost the Christian Democrats many sympathies among the population. **Additionally, the Corona crisis has left its mark: In spring, the CDU and CSU slipped below 30 percent in the polls for the first time in many years and temporarily lost their lead as the strongest party to the Greens. Laschet communicated willingness to alliance with the Greens, but only if the CDU would dominate the alliance and he could become chancellor.** In the meantime, it remains open whether the CDU could also try to negotiate for alliances with the SPD and Liberals (FDP).



**■ ■ ■ WHO ARE THE CHANCELLOR CANDIDATES – WHAT ARE THEIR PROSPECTS?****ANNALENA BAERBOCK**

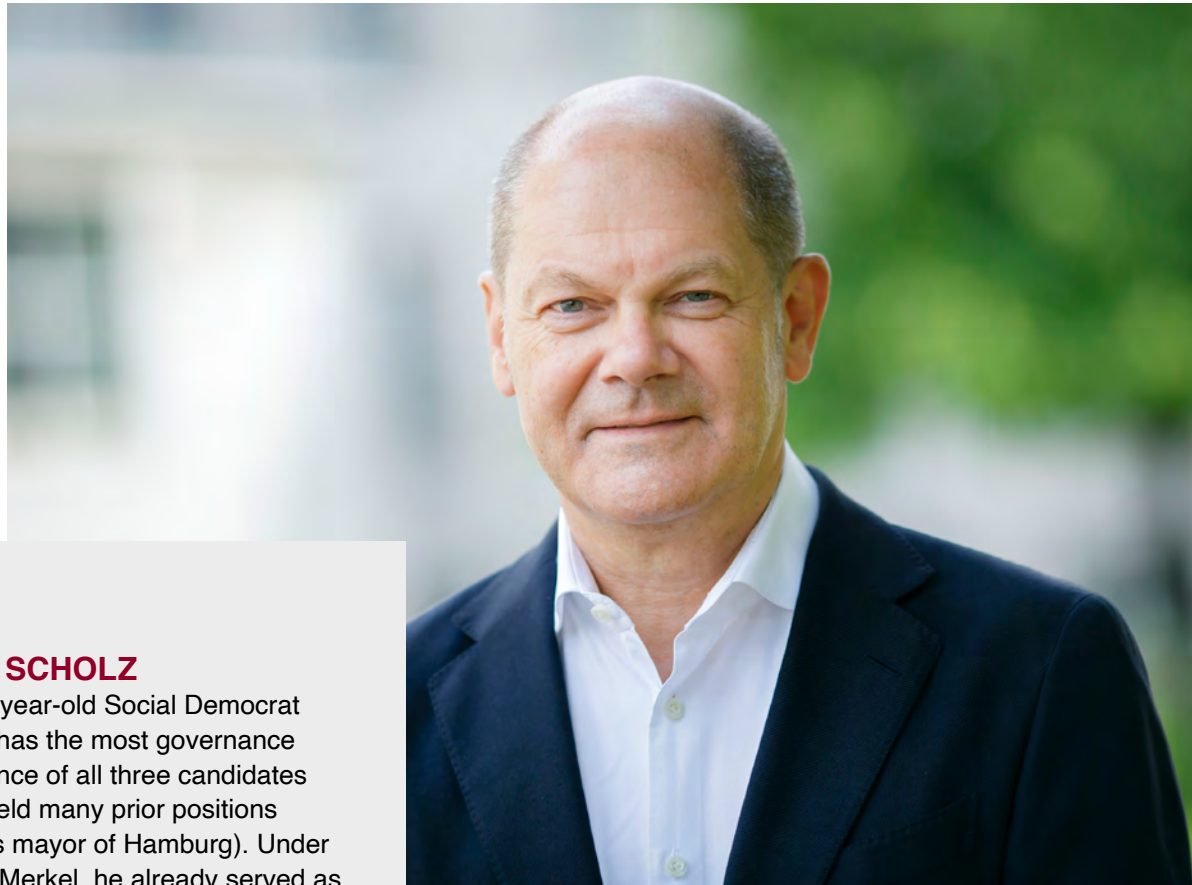
Baerbock has been one of two Green Party leaders for three years and has been a member of the Bundestag for eight years. The 40-year-old lives together with her husband and two school-age daughters near Potsdam, Brandenburg. She originates from Lower Saxony and studied political science in London, among other places. So far, she has never held government office.

The fact that the Greens could nominate a woman ultimately changed the course in the favor of her nomination as chancellor's candidate against her co-chairman Robert Habeck, who was much better known among the population.

**Baerbock's popularity ratings, which were very high at the beginning, have fallen significantly again. This is due to increased accusations of improper work on her resume and a book she published. Nevertheless, she has several chances of becoming chancellor: In a green-black coalition, if the Greens succeed the CDU. Or in a so-called "traffic light" coalition of the Greens (green), SPD (red) and Liberals (yellow). A left-wing alliance of the Greens with the SPD and the socialist-oriented Left Party would also be possible.** However, this coalition is considered to be politically extremely difficult because the Left Party strictly rejects the NATO and German military missions abroad. At present, this option also lacks a majority in current election polls.



## ■ ■ ■ WHO ARE THE CHANCELLOR CANDIDATES – WHAT ARE THEIR PROSPECTS?

**OLAF SCHOLZ**

The 62-year-old Social Democrat Scholz has the most governance experience of all three candidates as he held many prior positions (e.g., as mayor of Hamburg). Under Angela Merkel, he already served as labor and social affairs minister during the 2009 financial crisis. He is married, also lives in Potsdam and is childless.

During that time Scholz invented the system of the so called short time labour, which is now again playing a decisive role in helping to avoid unemployment during the pandemic. Thanks to the program, many companies were able to retain their existing skilled workers during the lockdown and restart quickly. **Currently, Scholz is holding the position as vice chancellor and finance minister. As Social Democrat, he belongs to the conservative wing of his party and was a proponent of major labor market reforms in 2004.** This has cost the SPD many sympathies among its voters, but helped the economy to recover. This and the fact that the SPD has repeatedly governed with the CDU in grand coalitions as a smaller partner have weakened the Social Democrats intensely. They are currently only the third strongest force with around 15 percent, and it is questionable whether Scholz will be able to improve his position decisively by the time of the election.

# WHICH ARE THE DECISIVE TOPICS IN THE ELECTION CAMPAIGN?

- **Climate protection**
- **Digitization**
- **Housing policy**
- **Finance and taxes**





## ■ ■ ■ WHICH ARE THE DECISIVE TOPICS IN THE ELECTION CAMPAIGN?

### CLIMATE PROTECTION

Climate protection is the dominant topic. **A historic ruling by the German Constitutional Court on April 24 in 2021 (1 BvR 2656/18) has significantly increased the pressure to act for the German government. Additionally, the new EU climate goals play a major role.** Previously, Germany had the goal of reducing its CO<sub>2</sub> emissions down to 55 percent by 2030 (compared to 1990) and to become climate-neutral by 2050.

Forty percent has already been achieved at present. **The court decided that the younger generation would be disadvantaged if the path to meeting these climate goals was not described in more concrete terms and a large part of the reduction measures would be postponed until after 2030.** Therefore, the German government has now raised its short-term climate goals. **A 65 percent reduction is to be achieved by 2030 and the country is to be climate-neutral already by 2045 (compared to the prior goal of 2050).** For each sector, there is also a precise specification of how emissions need to be reduced. In the transport sector for instance, a reduction of 43 percent is to be achieved between now and 2030.

Now it is all a matter of concrete implementation. Except for the right-wing populist party AfD, all parties accept the challenges of climate protection. **The conservative parties CDU and FDP tend to focus on technology and market-driven incentives, while the left-wing parties want to increase CO<sub>2</sub> prices or apply more state regulation.**

In the transport sector, the debate evolves around the faster electrification of cars and the expansion of public transport systems. A new general speed limit on highways is also being discussed quite emotionally. Germany is currently the only industrialized country without a general speed limit. The focus however continues to be on the expansion of renewable energies. Especially against onshore wind energy there are frequent local citizen protests. **Germany has already introduced a CO<sub>2</sub> price for any kind of fossil energy in 2021. It is currently 25 euros per ton and is expected to increase significantly.** Politicians argue about the extent of this increase and the social compensation measures. It is also clear that the phase out of coal energy, scheduled for 2038, will come earlier with the new decided climate goals in Germany. The end of nuclear power use has already been decided for some time and the last nuclear power plant is to be taken off the grid in 2022. **However, a condition for the success of the energy transition is the building of new power lines from the coastal regions in the north to the industrial centers in the middle and south of Germany.** These measures have long been planned, but in many places, they face resistance from citizens' initiatives.



## ■ ■ ■ WHICH ARE THE DECISIVE TOPICS IN THE ELECTION CAMPAIGN?

### DIGITIZATION

The Corona crisis has revealed Germany's backlog in digitization. Broadband expansion has not progressed as planned and there are still areas where there is no internet reception for cell phones. The pandemic has also shown once again that public administration in Germany lacks modern technology and flexibility, even though reforms of administrative procedures have long been discussed. **Many investors complain that any kinds of approvals take an immense amount of time.** Therefore, all parties are promising a modernization push, but with different investments and concepts in digitization.

GDP  
**73%**

GERMANY'S DEBT RATIO

### HOUSING POLICY

Housing policy is one of the main social issues on the political agenda, as around 57 percent of Germans are tenants. **In and around many large and medium-sized cities rents have risen exorbitantly for several years due to the influx of people from Germany and abroad.** Also, purchase prices have become unaffordable for many people. **Therefore, in some regions citizens' initiatives are already calling for the expropriation of large housing companies – and are gaining considerable popularity.** That is why the election campaign focuses on how to limit rent increases and enhance new necessary housing construction. Moreover, the compensation of the growing heating costs in regards to climate protection is another important topic.

GERMANS  
**57%**  
ARE TENANTS

### FINANCE AND TAXES

Due to its good economic and financial substance, Germany has coped with the Corona crisis without serious social and economic upheavals. Corporate issues were bridged with financial aids and unemployment rates rose only slightly. **However, all this was financed through debt. Accordingly, Germany's debt ratio rose again to 73 percent of the gross domestic product (GDP).** This is still comparatively low by European and global standards – but the German constitution allows debts to be made only in exceptional cases (“debt brake”) and forces the state to repay new loans as soon as possible. **Future budgets will therefore have to compensate the accumulated debt.**

Considering this, a fundamental discussion has begun between the parties about the debt brake regulation. **The Social Democrats and the Greens favor an abolishment or at least relaxation of it. However, the two-thirds majority in parliament and chamber of states required to amend the constitution is very difficult to achieve.** At the same time, there is a debate especially about higher taxes for the rich. Left-wing parties are calling for a wealth levy and some politicians are also proposing a one-time crisis levy on the super-rich. However, tax increases are rejected by the conservative parties. The Liberals have already set the condition to renounce all such taxes for their participation in any coalition.

# A CHANGE OF GERMAN FOREIGN AND TRADE POLICY?

In principle, it can be expected that little will change in German foreign policy after the election. All possible future government partners are clearly committed to the EU, NATO, multilateral treaties, international cooperation and support Israel's right of existence.

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However, there are differences in practice. For example, the Greens, who may provide the foreign minister after the elections, pay more attention to the compliance with human rights than CDU and SPD. In relations with Russia, Turkey and China, this could develop to a tougher political course, including an increased willingness to impose sanctions. Furthermore, the Greens want to take a much more restrictive approach to the export of armaments. However, the party rejects higher defense spending and foreign deployments of the German armed forces.

On the other hand, it is to be expected that the new German government will seek a close alliance with the U.S. administration under President Biden. This is likely to have a particular positive impact on international climate protection and development policy, for example through Germany's willingness to contribute substantial sums to international projects. Whether the controversial Nordstream II pipeline project in the Baltic Sea will be cancelled after the election depends on the strength of the Greens, who also oppose it for ecological reasons. So far, both the CDU/CSU and the SPD have stood by it. Also, the chances for a new transatlantic trade agreement have not increased as a result of Donald Trump being voted out of office. The Greens, Social Democrats and the Left party are principally critical of such trade agreements. They fear the lowering of social and environmental standards.



# GERMANY'S MEGA TRENDS



## PREVIEW

A lot has changed in Germany. People's life goal is no longer prosperity at any price, but a **good work-life balance** and the compatibility of family and career. An intact environment is also enormously important to many. Another major trend is that the coexistence of **different cultures** is becoming more and more normal – which brings some problems with it. Although political polarization has increased in Germany, efforts to achieve social balance and political consensus are still shared by the vast majority. *Read more about the future developments in our autumn briefing right before the elections.*





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