

An aerial photograph of Berlin, Germany, taken at dusk. The sky is a mix of soft pinks, oranges, and blues. The central focus is the Fernsehturm (TV Tower), a tall, slender structure with a large spherical observation deck and a long antenna mast. To its left, the dark, spire-topped roof of the Berlin Cathedral is visible. The city below is a dense collection of buildings, including modern glass-fronted skyscrapers and older, multi-story brick buildings. A busy highway with traffic is visible in the lower right quadrant. The overall mood is serene and historical, capturing a significant moment in time.

SOLACE GLOBAL

Germany's Merkel-less Election

The end of an era

September 2021

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Executive Summary

- The upcoming German elections will be the first since 2005 without Merkel, who is set to step down as Chancellor, marking the end of a defining era for Germany, Europe and the world.
- Under Merkel's chancellorship, Germany was transformed from the "sick man of Europe" into an economic and political powerhouse - leaving a large void to fill for whoever comes in as Chancellor.
- Polls have continued to tighten as election day draws nearer. This means it is increasingly uncertain who the new major governing party will be, and who could be the next Chancellor of Germany.

Should Merkel's Christian Democratic Union (CDU; who form the CDU/CSU) party win the largest number of seats, it is likely that there will be little immediate change to German policy. If the Social Democrat Party of Germany (SPD) win, then the policy may take a slight leftward turn, but will still be consistent in the main with the policy formulated under the CDU/SPD grand coalitions of recent years. Indeed, despite the professed desire to avoid another grand coalition, such a scenario can't be ruled out. The most radical shift in policy will come if the German Greens are successful in their bid to take the chancellorship. Even if they fall short, the Greens could become "kingmakers" and may hold sway over whether the CDU or the SPD lead the next government.

Whichever party emerges out of the election as the largest will be faced with a number of domestic and international issues. These issues range from the economic fallout of COVID-19, the challenges facing the European Union and climate change. These will have to be tackled with many weighing heavily on the country's psyche following 18 months of COVID-19 restrictions and the devastating floods in July. For many, Merkel represents years of comfortable continuity. As she leaves, no one is quite sure what her successor will stand for or champion.

Background

The 26 September will see the German people elect the members of the 20th Bundestag, and thus ultimately elect a new government. It is the first election since 2005 where the incumbent Chancellor Angela Merkel is not running for office. In the years since she ascended to the chancellorship, Germany has become the political and economic leader of Europe. Moreover, whilst President Trump was in office, some in the Western media even called Germany the new leader of the free world. As Chancellor, she provided a mature and steady hand to Germany and the wider EU, helping to guide the country and bloc through a series of crises, including the Eurozone Crisis, the Refugee Crisis, the Crimean annexation and Brexit.

The end of the Merkel era is significant both for Germans and the international community. Regardless of the result, this "changing of the guard" is both a risk and an opportunity for Germany. Whoever wins the chancellorship will face several immediate challenges. These include climate change - now a salient issue among German voters after last month's deadly floods - Brexit and internal EU political problems, the impacts of the pandemic, and the increasing polarisation of global politics with regards to the US and China. Arguably, some of these issues have been made worse by Merkel's policy of often doing just enough to prevent a full-blown crisis. This strategy has even become a German verb, "Merkeln" – meaning to do little or just enough on an issue.

The Parties

The CDU is seen as most likely to form the next government. Despite Merkel's departure from office and the CDU's role as the governing party for a decade and a half, they are still polling higher than their closest rivals. However, in recent weeks these polls have closed, with the Social Democratic Party (SPD) overtaking the CDU in some polls. As such, any CDU-led government is likely to once again be a coalition government. The CDU candidate for the position of Chancellor is Armin Laschet, the current chair of the CDU. Since 2017, he has served as the Minister-President of North Rhine-Westphalia, Germany's most populous state and economic powerhouse. He is seen as a continuation of Merkel.

However, the fact he is seen as the “continuity” candidate, combined with his close links to Germany’s industry, mean many Germans feel he isn’t likely to be able to make the policy changes needed to steer Germany into the future. The CDU are also currently plagued by a corruption scandal and questions over their handling of the pandemic, which has also exposed shortcomings in the CDU’s time in office.

The other major party in the country is the SPD. They are historically positioned to the left of the CDU. The SPD has lost to the CDU in the last four elections. The party have also, since the 1990s, seen their support halve. This is compounded by the fact they have spent much of the recent past in a “grand coalition” with the CDU. Many Germans perceive them as sharing the same political space as the CDU instead of being a major political party in their own right. The SPD candidate for the chancellery is Olaf Scholz, who has served as both finance minister and vice-chancellor in Merkel- led governments. Scholz is seen by many as the most likely candidate to be made the next chancellor. Recent polls have indicated that they are struggling to retain their place as Germany’s second party, with a surging Green Party polling close to them.

The declining electoral fortunes of the SPD in Germany mirror similar trends found across the western world by other centre-left social democratic parties. Despite this, a recent poll found that 35 percent wanted Scholz to succeed Merkel. This is a full 15 percent ahead of the CDU’s Armin Laschet. Scholz, and by an extension the SPD, is seen as a proven set of hands. Many who want to see a change from the last 16 years, but are also wary of the unproven Green Party, have turned to Scholz and, albeit more slowly, to the SPD.

The German Green Party had been challenging the SPD in the polls until recently. The party even stood to potentially become Germany’s second-largest party after these elections. While they have been overtaken in the polls in recent weeks, the party is still expected to command a respectable 17 percent of the vote. By not being part of the previous coalition governments, the party has been able to set itself as the main opposition.

The recent environmental challenges in the country, including the July floods, have also helped spotlight the party’s policies on climate change. Their candidate, Annalena Baerbock, has been a co-leader of the Greens since 2018 and comes from the party’s pragmatic wing, as opposed to its more radical wing, making the party more palatable to the often more conservative German electorate. Her main drawback is that she remains the only candidate never to have held elected office. This is likely to deter many German voters from supporting someone they see as lacking in political experience yet running for one of the nation’s highest offices. While it remains highly unlikely that she will become chancellor, Baerbock and the Green Party may play a major role in the formation of the next government.

Election Outcome

In recent weeks, polling data has moved significantly. This makes a coalition all but certain, but the exact composition will depend on election results. The tightening of the polls shows that many Germans are still uncertain about who to vote for. As a result, the forming of a government will likely be a drawn-out and long-lasting affair, potentially lasting several weeks beyond election day on 26 September.

One trend has been that the number of Germans who wish to see Scholz (SPD) as chancellor has risen as the election day draws nearer. It is likely that people are realising that they cannot simply vote for the CDU and retain Merkel. As a result, Scholz, with his long political experience, is likely to be the main beneficiary of this. For the SPD to be the major party in the next government, they need to convert Scholz’s popularity into wider support for the SPD. If the party can achieve this, then Germany could have a coalition without the CDU involved for the first time in over fifteen years.

Support for the CDU meanwhile is falling due to Laschet’s poor response to the German floods, which damaged his electoral standing. If the CDU do well enough, they may look to govern in coalition with the Green Party. This would result in a continuation of Merkel policies, with a Green/environmentalist spin. The exact makeup of the coalition would depend on how well the Greens do in the vote. A poor showing for the CDU, however, could lead them to grant concessions to the Green Party or to rely on a more unstable multi-party coalition with competing interests.

The Green Party are likely to be left as political kingmakers to either the SPD or the CDU, depending on which party performs most strongly. They may look to work with the SPD, with who they are more aligned on

many issues. Their position as kingmakers could see them holding a disproportionately strong position in the new incoming government.

Away from the three main parties, there have also been shifts in the polls. This adds further uncertainty. Germany's liberal-conservative Free Democratic Party (FDP) have been rising in the polls in recent weeks, running on a platform of challenging state-imposed pandemic restrictions. On the far left, Die Linke (The Left) has been undergoing a long-term tilt from older blue-collar workers in the industrial areas of the West and in the former Soviet East Germany to a younger, wealthier base in German cities. A concentration of their support in the cities could lead for them to do better than anticipated and bleed votes and seats from the other parties.

The far-right Alternative for Germany (AfD) meanwhile has cemented its support in the political system and currently serves as the largest opposition party in the Bundestag. However, this support remains volatile and subject to large swings. Germany's other political parties are opposed to the Eurosceptic and anti-immigration positions of the AfD. An unpredicted large swing towards the AfD would lead to further complications as parties seek alternative government formations besides a coalition with the AfD.

If any of these smaller parties do better than is initially anticipated, it would further add complications to the process of constructing a coalition. The FDP wish to prevent another "grand coalition" and instead govern with the CDU and the SPD, whilst if Die Linke does well they could sit in a coalition with the Greens and the SPD. Merkel has even warned in recent weeks against such a scenario.

Post-Election Issues

There are several issues of domestic and international importance that the winners of the election will have to contend with. Continuing to guide Germany out of pandemic and reviving the economy remain the most pressing issues on the domestic front. The country is however believed to have suffered the least severe economic disruption of all European countries during the pandemic. Statistics show that the economy shrank by 5 percent last year. The less severe economic damage is partially down to the government's decisive fiscal response, and the fact that industrial and manufacturing production makes up more than one-quarter of the German economy, sectors less badly affected by lockdowns and social distancing than the service and travel industries.

Since the German floods, climate change has also become a salient election issue. The Green party has done particularly well out of the floods. In the wake of the floods which killed at least 160 across the country, all three major parties in contention for the chancellorship recommitted to fighting climate change, however at different speeds. Finally, the debates have often focused on the fact that the pandemic has highlighted Germany's persistent lack of public sector and state investment in the Merkel era. It is believed that the underinvestment in the Merkel era totals 410bn Euros, or 12% of GDP. As a result of this sustained underinvestment, Germany now lags behind several other major industrial economies on metrics such as education, infrastructure, housing, and digitalisation.

All three major parties have different ways in which they have promised to remedy these domestic issues. The CDU are pledging fiscal responsibility and a return to balancing Germany's books. The Greens meanwhile are pledging to propose 600 billion Euros of investment across a decade in everything ranging from education, transport, and digitalisation efforts. The SPD fall between the middle of the conservative CDU and the more radical Greens – but haven't commented on whether they would try and eradicate the rules surrounding Germany's balanced budgets.

The Green Party's strong point is climate change, and many of their policies are calibrated around this issue. Meanwhile, the CDU is seen weakest on this issue. Laschet has stated that the German economy should not be "suffocated by an attempt to implement large and ambitious climate policies". The SPD occupy a middle ground between both the Greens and the CDU: they support the current government's climate policies but propose other measures alongside, such as a controversial speed limit of 130 Km/h on the German autobahn system.

Internationally, Germany is integral to the EU and is frequently seen as being one of the world's "middle powers". Thus, the German federal elections have the potential to change the outcome of decisions made in

the international order, with a particular focus on the EU and its immediate vicinity. Under the CDU and Merkel, Germany was often accused by its allies of prioritizing German commercial and geo-economic interests above democratic and human rights values. Examples include Nord Stream 2, a reluctance to impose EU sanctions on Hungary, and a reluctance to speak out about the situation in Xinjiang.

Under Laschet, this is unlikely to change. Laschet is known in Germany as a 'Russlandversteh'er', a derogatory term for people who take a soft stance, in particular towards Vladimir Putin's Russia, but also other autocratic states. As such, Laschet would likely continue to infuriate the US, the UK and other European partners who take a harder line with states such as Russia and China. Protecting the German economy and its exports have long been a key concern of Laschet and would take central prominence in the foreign policy of a Laschet-led Germany

The SPD has announced they would back the creation of a new version of Ostpolitik, to deal with states such as Russia and China. Ostpolitik was the policy of West Germany of opening relations with East Germany and the other communist/soviet states. The SPD claim it would allow for an opening of relations with states such as Russia and China on areas of common interest such as climate change, whilst still leaving room for dispute and without compromising on German values. It remains to be seen whether countries such as China and Russia, which seem to no longer follow the international norms and customs, will allow an SPD chancellor space for this new form of Ostpolitik. However, much like Laschet, the countries which seek to see Germany and the wider West take up a harder stance against such countries will likely view a new form of Ostpolitik as a disappointment.

The Greens are the party most likely to result in a significant shift in German foreign policy. In a speech in May, Baerbock stated that the time had come for Germans to be more active in foreign affairs and to take responsibility for their security. They would seek to increase pressure on autocratic states, in particular Russia. They would also seek to shut down the highly controversial Nord Stream 2 which "violates the spirit of economic sanctions on Russia". The Greens also announced, in a pointed fashion, that they would not allow trade concerns to trump human rights.

Despite these shifts in the Green Party towards being tougher on autocrats, the Greens remain wary of military spending. For instance, they have refused to commit Germany to reach the 2 percent of GDP on military spending which NATO requires its members to reach. Whilst other NATO members such as Bulgaria, Estonia, the UK, and Poland all meet this target, and others are close to reaching it, Germany lags behind.

What Next?

If a government is formed which does not include the CDU, it would likely come to be seen as a radical and reform-minded government. One which would likely immediately begin working on sustainable policies and tackling several of the growing problems Germany faces relating to infrastructure, climate change and inequalities. The implications of a government with no CDU range from more state spending, greater emphasis on climate change, and perhaps even greater EU integration. Indeed, as the likelihood of a non-CDU government increases, yields on German bonds and gilts are already rising due to the perception that increased fiscal spending is on the way. Alongside this, a federal government that included the Greens would be seen as a historic change for Germany, a country characterized since the Second World War and reunification by a culture of political stability, caution, and moderation.

Whatever the outcome of the German election, one thing is certain: it marks the end of one chapter in Germany's political history and the opening of a new one. The period between the 1990s and now is one distinct chapter in the history of reunited Germany. This period has seen the reunification of the country, the federal capital move to Berlin, the introduction of the Euro, and the country once again beginning to find its place within Europe and the world under Merkel. Despite this, several internal challenges remain, such as the economic and social lag between the former GDR and the West, and the systemic lack of investment.

Meanwhile, Germany's allies have long worried that the country is wary of asserting itself on the global and regional stage. It has long spent little on defence, and under Merkel has not stood up robustly enough to democratic backsliding in its eastern neighbours, or the EU. Indeed, it has prioritised its economic prowess

over international concerns. In effect, Germany hasn't yet faced up to the realities of the new turbulent multi-polar world that has arisen in the last decade and a half.

As this chapter in German politics ends, it remains to be seen whether the three main candidates vying for the position of chancellor will be up to the task of steering Germany through the latter stages of the pandemic, and the more turbulent foreign arena whilst managing to deal with Germany's mounting internal challenges.



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