

LETTER FROM BERLIN



Germany Without A Government

Political chaos reigns.

BY KLAUS C. ENGELEN

In the regional elections in the eastern states of Thuringia, Saxony, and Brandenburg, our dire predictions about Germany's threats from the far right have become bitter reality. We were right on the mark also in previous columns about Germany's heat pump fiasco and "How the Greens fell from grace."

Now the Greens are suffering their worst political meltdown in decades. In the previous issue, we discussed how Germany was dealing with its "debt brake" problem, and we are now seeing the bitter consequences. As the largest EU economy, Germany won't have the fiscal space to participate in former European Central Bank President Mario Draghi's ambitious European capital market development plan of €800 billion per year.

GERMANY'S DE-INDUSTRIALIZATION ESCALATES

The biggest worry at this stage is the worsening economic situation, with Germany's economy facing stagnation and increasing de-industrialization.

The unprecedented crisis at automaker Volkswagen with tens of thousands in possible job losses, the spectacular break-up of Thyssenkrupp, and the closings at the chemical giant BASF due to high energy costs in Germany are making headlines. For the auto

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industry, the downward trend in business with the giant Chinese market is an especially big problem for Volkswagen.

The Federation of German Industries (BDI) presents an alarming overview of the state of the country's industry: "One-fifth of German industrial value creation is at risk," according to a study by the leading business association with Boston

Consulting Group. Germany is under more pressure as a business location than ever before in what should be a wake-up call for urgent reforms and investments. Additional investments of €1.4 trillion (US\$1.5 trillion) are needed by 2030, the BDI estimates. "The risk of de-industrialization due to the silent abandonment of many medium-sized companies in particular is continuously increasing and has already materialized," said BDI President Siegfried Russwurm. According to the study, Germany as a business location faces high energy prices, the need for more skilled labor, bureaucratic constraints, a lack of investment, and high taxes. This "structural polycrisis" poses "a fundamental threat to Germany's substance as an industrial location."

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by 2.9 percent. According to BDI president Russwurm, politicians had “maneuvered themselves into a complexity trap and were increasing the complexity even further in the struggle for solutions without making any convincing progress. ... Economically, this means that there is no reliable basis for calculating investments. Politically, it is driving many people astray out of anger and genuine despair over political events.”

As to the European Commission and the European Parliament, the BDI head warns, “German industry wants more Europe, but in the right way.” Russwurm sharply criticized the European Supply Chain Duty of Care Act and the regulatory framework for artificial intelligence. He also called for European policymakers to figure out how industrial competitiveness and climate protection could be brought together in European policy.

In view of what is happening in the recent state elections, the BDI head demands urgently “more unity among the democrats in our country, not only to finally tackle the fundamental need for action and modernization with determination, but also to protect democracy and freedom.”

EXTREMIST PARTIES CHANGE THE GERMAN SYSTEM

The three state elections in Brandenburg, Thuringia, and Saxony turned out—even taking into account that in Brandenburg the SPD officeholder can stay in office—as an unmitigated political disaster for Chancellor Olaf Scholz’s traffic-light coalition of the Social Democratic Party, the Greens, and the neoliberal Free Democratic Party.

“Putin ‘wins’ in eastern Germany,” headlined *Politico* in reaction to the disaster for Germany’s centrist democratic political parties. It continued, “A heated debate on Russia is crashing the normally more provincial politics of eastern German states, and Vladimir Putin is likely



German Chancellor
Olaf Scholz



Vice Chancellor
Robert Habeck



Former Finance Minister
Christian Lindner

Chaos Brigade

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A few days later, the leaders of the Greens, Omid Nouripour and Ricarda Lang, stepped down with the admission: “New faces are needed to lead the party out of this crisis” and that the party is facing “the deepest crisis in a decade.”

And as *TIE* goes to press, Germany’s traffic-light coalition is history after Scholz sacked his finance minister, Christian Lindner, over disagreements on loosening the debt brake and economic reforms. The exit of the liberal Free Democrats forces Scholz to hold a confidence vote, which he is expected to lose since he lacks a parliamentary majority. The parties have agreed to hold a snap election February 23, seven months ahead of schedule.

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loving it. ... Russia-friendly parties on both extremes of the political spectrum surged—and they are already demanding that German leaders radically change their way of dealing with the Kremlin. That includes the populist-left Sahra Wagenknecht Alliance (BSW), a new party named after its founder, a leftist icon who started out in politics as a member of East Germany’s communist party, which took third place in both Thuringia and Saxony.” After the election, the BSW demanded that Berlin end a recently

announced plan for the United States to deploy long-range missiles in Germany to defend NATO territory.

As feared, the German far-right anti-immigration party Alternative für Deutschland could hail a “historic” election victory in the east. On September 1, more than twice as many voters in the eastern states of Saxony and Thuringia choose the far-right AfD over the SPD, Greens, and FDP combined. The FDP in both states and the Greens in Thuringia even failed to meet the 5 percent threshold to be represented

in the state parliaments. The BSW was able to get double-digit voter backing in its very first state elections.

WOIDKE'S WIN WAS A RELIEF FOR SCHOLZ

But on September 22, thanks to Dietmar Woidke, minister president of Brandenburg for eleven years, the Social Democrats were able to fight off the AfD in the regional vote. Taking into account the deep frustration of Brandenburg voters with the Berlin coalition government, Woidke made sure to keep Chancellor Scholz—who resides in Brandenburg—at a distance during the campaign. What also might have kept the AfD in second place was the firm pre-election Woidke pledge that should the SPD lose, he would quit.

But as expected, the AfD was able to record massive gains, prompting AfD co-leader Alice Weidel to thank the Brandenburg campaigners. “We are extremely satisfied with the results.” The AfD has become the strongest political force in eastern Germany following the 2024 regional elections.

For the German chancellor, the rise of the AfD and the BSW must be a horror scenario. “Our country cannot and must not get used to this,” said Scholz, according to NBC News. “The AfD is damaging Germany. It is weakening the economy, dividing society, and ruining our country’s reputation.”

Here are the numbers. In Brandenburg, the BSW finished third with an impressive 13.5 percent, with

SPD in the lead with 30.9 percent, the AfD with 29.2 percent, the CDU with 12.1 percent, and the Greens with 4.1 percent.

In Thuringia, the AfD led with 32.8 percent, the CDU had 23.6 percent, the BSW had 15.8 percent, the Left was at 13.1 percent, the SPD at 6 percent, the Greens at 3.2 percent, and the FDP at 1.1 percent.

For Saxony, the CDU held the lead with 31.9 percent, the AfD got 30.6 percent, the BSW 11.8 percent, the SPD 7.3 percent, the Greens 5.1 percent, and the FDP 0.9 percent.

IS AfD A “PEOPLE’S PARTY” IN EASTERN GERMANY?

Eurointelligence in Brussels warns, “When firewalls spread fire” that Sahra Wagenknecht has emerged as the power broker in German politics after recent state elections, where it is now up to her to decide whether the AfD can form its first government. It sees the elections as part of a broader European trend of political fragmentation that makes it harder to form traditional coalition governments.

This assessment is in line with the takeaways from the east German elections by *Politico*. “The far-right Alternative for Germany just keeps rising despite efforts to stop it. ... Even as many centrist leaders and institutions in Germany warn of the AfD extremists, many voters have simply stopped listening. ... The AfD has turned into a ‘people’s party’ in Germany’s east.”

Although Germany’s state-level intelligence authorities in Saxony and

Thuringia have classified—and are observing—the AfD as an extremist organization acting to undermine German democracy, the voters didn’t care. Thuringia’s AfD party head Björn Höcke, who twice has been found guilty by a court for Nazi rhetoric and who recently appeared on the cover of *Der Spiegel* magazine as a new

Hitler threat, led his party to victory in the state election.

FDP ULTIMATUM AND GREEN PARTY LEADERSHIP CHANCE

On Monday after the Brandenburger election, Christian Lindner, FDP leader and German finance minister, started threatening his coalition partners and a frustrated public with his announcement that “now we are in the autumn of decisions.”

And a few days later, the leaders of the Greens, Omid Nouripour and Ricarda Lang, stepped down with the admission: “New faces are needed to lead the party out of this crisis” and that the party is facing “the deepest

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crisis in a decade.” There are indications from insiders that the strongman of the Greens, economic minister and vice chancellor Robert Habeck, was behind this move to reposition the party more to the center in order to improve the party’s chances of becoming a coalition partner in a coming new government.

Lindner’s threats led *Deutsche Welle*’s Berlin correspondent Sabine Kinkartz to ask, “Can the German government survive its ‘ultimatum autumn’?” The last three state elections, she writes, “appeared to echo the mood of the country. Never before in the history of postwar Germany has a federal government been as unpopular as this coalition.”

Kinkartz spelled out what has become apparent: “Whether it’s pensions, the economy, or migration, the German government is at odds over most issues. But now the FDP has issued an ultimatum: the coalition must come to terms or face the end. ... By threatening to pull out of the coalition,



CDU head **Friedrich Merz**: “I will do everything I can to prevent this European Union from spiraling into debt.”

the party is hoping to make its own, more neoliberal agenda more visible. Breaking up the coalition is currently seen as a bad move, as a federal election could be disastrous for all three parties. Currently, all three combined are polling lower than the largest opposition force, the center-right Christian Democratic Union.”

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FALLOUT BETWEEN MERZ AND LINDNER

The ever-more-powerful CDU/CSU opposition leader Friedrich Merz—also a candidate for chancellor—when looking ahead to the next federal elections in September 2025—might have second thoughts about choosing the FDP with Lindner in charge as a coalition partner.

“Merz abandons FDP” headlines *Eurointelligence*, confessing, “Like Friedrich Merz, we too struggle to make sense of the FDP’s strategy. ... For a long time, the FDP was considered the ideal coalition partner for the CDU: economically conservative. Those days are over. In his recent message to CDU members, Merz announced a break with the FDP. He accused Lindner of sabotaging Olaf Scholz’s government and doing everything it could to be kicked out. He wrote that the FDP blocks laws it agreed to in cabinet, like the new law on collective bargaining, or the last pension reform. He asked how long the FDP could keep on doing this.

When asked by *Bild* about his friendship with Lindner, Merz

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responded “that he understands him less and less.” On other occasions, Merz’s criticism of Lindner turned even harsher. What he is doing is “organized suicide,” *Die Welt* reported Merz saying of Lindner.

SPLIT GERMAN REACTION TO DRAGHI’S REPORT

Despite the apparent fall-out between Merz and Lindner, they both came out with a categorical *nein* to the Draghi report proposals to take on more joint EU debt to finance investments to better catch up with the faster-growing United States and China.

On September 9, when Draghi’s report, “The future of European competitiveness” came out, it took only a few hours for German Finance Minister Lindner to declare that

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Germany would not agree to Draghi’s common borrowing proposals.

In the Bundestag debate about the budget on September 11, the CDU’s Merz also pledged a strong rejection: “I want to say this very clearly, now and in the future, I will do everything I can to prevent this European Union

from spiraling into debt.” Merz described the pandemic’s €800 billion “Next Generation EU” borrowing program as “an exception,” but argued Draghi’s proposal “is not covered by the current provisions of the European treaties,” adding, “We have a ban on borrowing in Europe.”

In contrast to the CDU/CSU and the marginalized FDP, the SPD and Greens feel victimized by the present debt brake and have been pleading for urgent debt brake reform.

In *Frankfurter Allgemeine Zeitung*, Holger Schmieding of Berenberg Bank argued on September 30 that with the present debt brake, “Germany is standing in its own way.”

He says, “The German national budget is now more solidly financed than almost anywhere else in the world. But this fiscal success has a downside. A partially dilapidated infrastructure is offset by a generous social system. ... But since Putin’s attack on Ukraine, it has definitely become outdated in its current form. In order to keep German military spending at the NATO lower limit of 2 percent of economic output after the end of the special fund of €100 billion, the federal budget would have to create additional space of €25 billion per year. More public investment, more funds for climate and flood protection, and more money for research would also be needed.”

Schmieding concludes, “There is no other way than to lose the debt brake.” ♦