

Germany is Starting to Turn the Corner: Can the New Government Provide Momentum?

By Thomas Brey

Introduction

When Chancellor Angela Merkel left office after 16 years, she left behind a country pressed by numerous problems in the economy, society and on the political scene. At the end of last year, the German Chancellor described a success story in her political memoirs, which became a global bestseller. But despite all the successes described there, the economically strongest country in the center of Europe is in an existential predicament. Particularly harsh critics such as the former President of the Federal Constitutional

Court, Andreas Voßkuhle, are even warning that the world's third-largest economic power will descend into a 'second-world country.'

What is the situation?

The crisis scenario is quickly sketched out. The infrastructure for roads and railways is largely ruined because investment during the Merkel years remained completely inadequate. According to calculations by the organization

'Transport & Environment', around 16,000 bridges in Germany are dilapidated. The collapse of the Carola Bridge in Dresden in September 2024 showed just how dramatic the situation is. Following cracks in the supporting structure, the so-called Ringtal Bridge in the west of Berlin - one of the busiest transport hubs in Germany - had to be closed last March. The structure, which dates back to 1963, is now being demolished. It remains to be seen when a new bridge will be built.

Deutsche Bahn at a low

Every third long-distance train operated by Deutsche Bahn arrived late at its destination last year. In June 2024, only every second long-distance train arrived on time. This means they were less punctual than they have been for over two decades. The reason: there is an enormous investment backlog on the approximately 10,000 kilometers of tracks, just like on the roads.

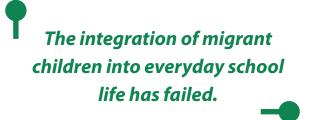
Every third long-distance train operated by Deutsche Bahn arrived late at its destination last year.

Trains have to run slowly on old tracks and alternative routes have been closed in the past. The railway invested around 17 billion euros in its infrastructure in 2024 alone. But the situation remains more than tense. Since April, Swiss Railways (SBB) has been forcing two

long-distance connections from Hamburg and Dortmund to terminate at the border in Basel. The reason: the trains from Germany, which were supposed to continue on to Zurich and Interlaken, always arrived with such long delays that they disrupted the Swiss timetables.

Bundeswehr barely operational education crisis

The Bundeswehr has been 'cut to the bone', as the 'Neue Zürcher Zeitung' analyses. Large parts of the large military equipment such as tanks are not operational. Too few soldiers are struggling with a dramatic shortage of ammunition. Many school buildings throughout the country are so dilapidated that some particularly vulnerable ones have had to be partially closed.



In international educational comparisons, German boys and girls regularly perform dramatically poorly - in scientific subjects, but now also in their native German language. Calls for help from teachers to politicians to finally do something about the drastic increase in violent offences committed by pupils generally go unheard. The integration of migrant children into everyday school life has failed - apart from positive exceptions.

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Economy in recession

Industry is mourning a deep crisis. The entire economy has been in recession for years. The steel industry is groaning under the system changeover to green steel, which is produced from green hydrogen, and under electricity prices that are high by international standards. The automotive industry - once the flagship of German engineers and the source of ever new export records - has overslept the switch from combustion engines to electric vehicles due to management mistakes. Market leader VW will cut 35,000 jobs.



Suppliers such as Bosch and Continental have announced the cancellation of many thousands of jobs. China is now the clear market leader in electric cars. However, the German manufacturers do not want to admit defeat and have promised more affordable and competitive models from this year onwards.

Historic upheavals in politics

There have also been unprecedented upheavals in the political landscape. The Alternative for Germany (AfD) party, categorized by the Office for the Protection of the Constitution as 'definitely right-wing extremist', has entered the Bundestag as the second strongest force in the parliamentary elections in February. In the latest polls, it has even ousted the then victorious

Christian Democratic Party (CDU/CSU) from first place and, with 26 per cent, is two per cent ahead of the CDU. So how should we deal with right-wing extremists who continue to enjoy a massive influx of voters, especially young people? Especially as a large majority of Germans expect the AfD to become the strongest party in the next general election. A ban on political parties is being discussed again. Scolding comes promptly from the USA in the form of US Secretary of State Marco Rubio.

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In recent years, the democratic parties have tried to isolate the new political force. No cooperation in parliaments, no important posts for the AfD in committees. But this strategy has failed. Throughout the country, almost all parties are co-operating with the AfD at certain points. Most recently, this party, with the help of the CDU, forced a district in the federal state of Saxony-Anhalt to require all public buildings, including schools, to fly German flags as a sign of correct national sentiment.



A new federal government has been in place since 6 May, promising to solve the country's most

pressing problems. The CDU/CSU (208 seats) has formed a coalition with the Social Democrats (SPD) (120 seats). With a total of 325 votes in his favor, the governing parties achieved an absolute majority, above the needed minimum of 316 seats in the 630-member parliament. However, this is a far cry from the two-thirds majority (420) that would allow the constitution to be amended. This is why both parties, with the help of the Greens, have fast-tracked a record debt package through the old Bundestag: 500 billion euros for the ailing infrastructure and hundreds of billions more for the Bundeswehr.

Migration policy

Restricting immigration is a key concern for the new government. To this end, migrants should be able to be turned back at borders as soon as they enter the country. This should be done in agreement with the EU member states, which often have completely different positions. Austria and Poland promptly rejected Germany's plans to return asylum seekers who enter Germany via their countries.



It is unclear how the promised deportations of the 240,000 people currently obliged to leave the country - including serious criminals from Syria and Afghanistan - can be realized. In contrast, the cuts in social benefits for asylum seekers in Germany and the suspension of the 'turbo naturalizations' decided by the old federal government after just three years are likely to be easier to implement. However, the two coalition partners often have opposing positions on migration policy.

Economic reforms

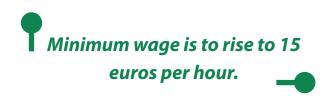
Instead of the expected tax cuts for companies hit by the crisis, there will initially only be write-downs on investments of 30 per cent. A reduction in corporation tax is not planned until 2028. The corporate tax reform promised by the new Federal Chancellor Friedrich Merz will not materialize for the time being. Industry is also set to benefit from a reduction in electricity tax. With a total tax burden of around 30 per cent for companies today, Germany is at the lower end of the global tax rankings (in comparison: around 25 per cent in France, the UK and the USA).

Pensions and wages

Mothers who gave birth before 1992 will receive around 20 euros more per month per child in future. However, this comparatively modest amount means additional expenditure of five billion euros per year. All pensioners will be guaranteed a stable pension of 48 per cent of the average income in the coming years. As more and more people are drawing pensions and fewer and fewer people in employment have to finance them, the already huge subsidies from taxpayers' money will continue to rise. At the same time, employees' pension contributions will increase significantly. 'What is missing is the urgently

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needed pension reform to keep the pension system affordable, criticizes economist Monika Schnitzer, who advises the federal government. Austrian economist Gabriel Felbermayr is even clearer: "Both coalition partners are sinning against the younger generation to some extent here."



According to the government program, the minimum wage is to rise to 15 euros per hour. In the catering sector, VAT will be reduced from 19 to seven per cent. Farmers can look forward to subsidies for their agricultural diesel. Even after reaching retirement age, employees will now be allowed to earn extra money and will not have to pay tax on the first 2,000 euros of income. However, there is a decisive restriction on all planned government spending. According to the governing parties, they should only be implemented if there is money available in the state budget ('financing proviso'). The German Economic Institute (IW), which is close to the employers, has a sober assessment: 'Reforms are being postponed because the coalition partners cannot agree'.

State reform is still a long time coming

In principle, the new government is committed to reforms in the state and administration, to reducing bureaucracy and to modernizing all public sectors. However, there are likely to be many discussions about how to achieve this. Last November, a high-ranking 'Initiative for a State Capable of Acting' was founded, led by former federal ministers Thomas de Maiziere (CDU) and Peer Steinbrück (SPD) as well as media manager Julia Jäkel. In March, it presented 30 concrete proposals aimed at 'fundamental reorganization in the engine room of the state'. This is to be achieved with a large-scale 'state and administrative reform'. For example, the more than 10,000 different software systems at federal, state and municipal level are to be standardized. Car registrations or home registration for all citizens should be simplified. The bundling of around 170 different social benefits, which are administered by almost 30 authorities, is also on the agenda of these modernizers. All tasks would have to be redistributed between the federal, state and local authorities.

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The aim is to establish standards for the whole of Germany so that, for example, different school examinations of varying quality are not organized as in the past. The relationship between the state and citizens must be transformed from the current 'culture of mistrust into a culture of trust'. The state should demand less evidence, but should carry out more random checks on compliance with rules and then impose significantly higher penalties. According to critics, the "regulatory mania" of the state and its administration must be curbed. The Bundestag has passed 333 new laws in the last three and a half years. In addition, there are thousands of

laws and implementing regulations in the federal states and municipalities. This is an issue that the AfD repeatedly emphasizes and therefore goes down well with citizens. Its leader Alice Weidel claimed at the end of April that there are now 1,306 individual federal laws on almost 40,000 A4 pages. The number of laws has grown by around 60 per cent in the last 15 years. This problem is also being tackled by the new federal government. For example, it wants to simplify and speed up authorization procedures for house building.

New foreign policy through a new government?

In contrast to the strengthening AfD (which wants to leave both the euro and the EU), the new German government is committed to the European Union without any ifs or buts. This also applies to the partnership with the USA, which is, however, being put to the test by the erratic customs and foreign policy of the new US President Donald Trump. There is likely to be a shift in emphasis in the relationship between Berlin and Paris. While former German Chancellor Olaf Scholz maintained a cool relationship with French President Emmanuel Macron, his successor Friedrich Merz is a proven friend of France. Many of Macron's ideas on the further development of the EU or on a common defense or financial policy fell on deaf ears with Scholz. Merz speaks French, knows the country from many private visits and spent hours talking to Macron before his election as Federal Chancellor.

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Against this background, the former 'Franco-German axis', which was previously seen as the guarantor of a successful EU policy, could be revitalized. Especially as Macron and Merz agree that Europe must make greater military efforts due to the Russian war of aggression in Ukraine and the Trump administration's disengagement from NATO. The joint armaments projects, such as the development of a battle tank and a multi-role combat aircraft, which have been languishing due to political differences, are therefore likely to gain new momentum. France's offer to deploy its own nuclear weapons to protect the entire EU is also likely to meet with greater favor in Berlin.

Relations with Russia

Like the old government, the new government will also provide military support to Ukraine against Russia. The maxim of making Ukraine so strong that Russia does not win this war still applies. In the coming weeks, the discussion about the delivery of German Taurus cruise missiles is likely to flare up again. The Taurus can fly 600 kilometers and thus penetrate deeper into Russian territory than similar British, French and US weapons, which have already been delivered in limited numbers. Germany could theoretically supply 300 units of these cruise missiles. The Kremlin warned in April that a Taurus delivery would be seen as 'direct German involvement in the war'. This is because it is assumed that

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German soldiers would be involved in such a deployment from Ukraine. Merz had hinted at a Taurus delivery, the old and new Defense Minister Boris Pistorius is against it. A clear two-thirds majority of the German population is also against the deployment of these cruise missiles.

political position among the population through such potential successes? Or can the AfD benefit politically in the event of a failure or dispute, gain more and more influence as the strongest party or even clearly win possible new elections? After all, the AfD is the Kremlin's declared favorite.

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In the CDU, voices have become stronger again in recent weeks that are considering a - later - cooperation between Germany and Russia. Minister Presidents Mario Vogt (Thuringia) and Michael Kretschmer (Saxony) have brought up the idea of lifting sanctions against the Kremlin. The former head of government of North Rhine-Westphalia, Armin Laschet, is also counted among the 'Russia faction', as is top politician Ronald Pofalla and a dozen party colleagues. Even the resumption of gas supplies after the repair of the destroyed Nordstream pipelines is being considered. How these positions will ultimately affect the new German government's policy on Russia remains to be seen. Especially as many party functionaries in the SPD, such as the current parliamentary group leader Rolf Mützenich or his top comrade Ralf Stegner, have traditionally flirted with Russia like many of their colleagues. Future foreign policy will also depend on how the domestic political situation develops. Can the different partners CDU/CSU and SPD cooperate and achieve noticeable improvements in the economy and society? And improve their

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It wants to forge an alliance between the AfD and the meteoric rise of Sarah Wagenknecht and her alliance. Although this newly founded alliance (BSW) had achieved fantastic election results in eastern Germany, it failed by a waferthin margin at the 5 per cent hurdle in the Bundestag elections in February. Here too, it remains to be seen whether Wagenknecht will be able to consolidate her movement after this setback and lead it to new electoral successes. The entire foreign policy is also subject to the big question mark of how the inner-German political, economic and social landscape will develop. In recent years, western and eastern parts of Germany have grown ever further apart. The last election further widened this gap with drastic successes for the far-right AfD in the east. It is quite possible that this pro-Russian and anti-European party will gain even more strength and influence and thus also have an impact on western Germany. There are already influential politicians in the CDU/CSU who want to approach the AfD and break through its previous isolation. For example, the new CDU parliamentary group leader and former Economics Minister Jens Spahn has called for selective cooperation.

Outlook

German politics does not operate in a vacuum, but is embedded in the changing political situation in Europe and the world as a whole. In Austria, the pro-Russian and anti-EU FPÖ is the strongest political force and has only been able to keep the democratic parties from forming a government this year with great difficulty. Openly pro-Russian governments are in office in Slovakia and Hungary. Parliamentary elections will be held in the Czech Republic in October, which the former Eurosceptic and Russophile head of government Andrej Babiš is expected to win. In France, presidential elections are due in 2027 and the right-wing populist Rassemblement National is likely to win by a clear margin - regardless of whether Marine Le Pen runs or remains excluded following her conviction for corruption. Rightwing populists are on the rise throughout Europe: in Italy, Georgia, Romania and Moldova as well as in the Netherlands and Scandinavia. The next few years have all the ingredients to cause sociopolitical upheaval in Germany and Europe.

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