

## ECONOMICS

# END OF THE TRAFFIC LIGHT COALITION: TIME FOR A POLITICAL RESTART

Dr. Jörn Quitzau, 07 November 2024

- **The German government has collapsed. Chancellor Scholz wants to call a vote of confidence in January to enable new elections in March if necessary. In view of the fragmented party landscape, it will be difficult to form a new government after the new elections.**
- **At first glance, the government has failed due to differing views on the debt brake. In fact, differences in content in almost all relevant policy areas were the decisive factor.**

The federal government has failed. After Federal Finance Minister Christian Lindner (FDP) proposed new elections to Chancellor Olaf Scholz (SPD) at a meeting of the coalition committee on Wednesday evening, the Chancellor dismissed the Finance Minister. Scholz then declared that he would call a vote of confidence in the Bundestag in January so that new elections could be held in March if necessary. The end of the so-called “traffic light” government comes after several weeks of serious differences within the government. In this respect, the development is no longer a surprise. The nature of the public statements made by Olaf Scholz and Christian Lindner shows just how deep the rifts in the coalition were.

From the outset, the coalition was not under a good star because the FDP (Liberals) and the Greens were two parties that were miles apart in terms of economic philosophy and ideology. The FDP stands for individualism and market-based solutions, the Greens for collective and dirigiste approaches. In this respect, it was clear that the coalition would have to manage a permanent balancing act - and after three years, this balancing act was clearly no longer bearable. At first glance, the coalition failed on Wednesday evening due to differing views on the German debt brake. In reality, however, it was the differences in content in almost all relevant policy areas that caused the breakdown.

All three governing parties are polling well below their election results from the 2021 federal election (SPD: 16% instead of 25.7%; Greens: 10% instead of 14.8%; FDP: around 4% instead of 11.5%). According to the latest polls, the strongest party would be the current opposition party CDU/CSU (Conservatives) with 32-33% (2021 federal election: 18.9%). The next governing coalition will therefore most likely be led by the CDU/CSU and its candidate for chancellor Friedrich Merz. Whether the timetable outlined by Olaf Scholz - with a vote of confidence in January - can be maintained remains to be seen. Things could also speed up. In any case, the next government faces a number of challenges. The economy needs to be stimulated and society needs to be calmed down again. This will not be an easy task given the highly fragmented party landscape and the various incompatibilities between different parties. One - unsurprising - lesson from the traffic light government is that coalition partners need a certain amount of overlap in terms of content.

Germany's economy has been stagnating for years. The country has now slipped to the bottom of the growth table in Europe. The stagnation may be an economic snapshot, but the long-term prospects are also bleak: German potential growth has fallen to a meagre 0.5%. This is in stark contrast to the new economic miracle (Wirtschaftswunder) promised by Chancellor Scholz in March 2023 with growth rates like those of the 1950s and 1960s. Nothing shows more clearly how wrongly the government has assessed the current economic challenges. The time for a change of course in economic policy is pressing, as the next problem, demographic change, is already just around the corner.



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