

GERMANY VOTES 2025



Volume 6: No Confidence, All Campaign: The Election Begins



Welcome to the 6th Volume of Germany Votes 2025!

As expected, Chancellor Scholz (SPD) has lost the vote of no confidence, marking the unofficial start of the election campaign. The increasingly sharp tone between parties reflects the political battle ahead. In this edition, we break down the vote of confidence and the key milestones to watch. We also dive into a topic set to dominate debates on improving Germany's appeal as a business location: social contributions and income taxes. Enjoy the read, have a wonderful holiday season, and we'll see you back in the second week of January 2025!

Best,

Caroline Mücke-Kemp

Head of Public & Government Affairs Germany

As of 18 December 2024

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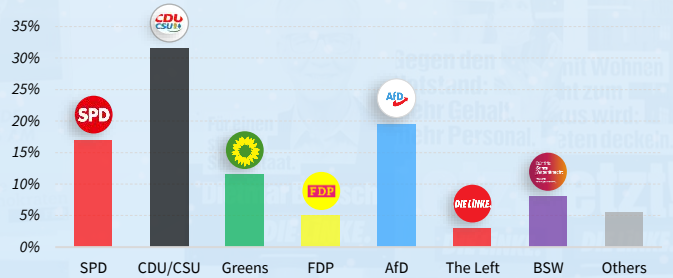
Days left until German
Federal Election on
23 February 2025

In a nutshell:

- **Chancellor Olaf Scholz loses the vote of confidence:** This clears the way for elections on 23 February 2025, pending the Federal President's formal dissolution of the Bundestag. Parties are already in campaign mode, marked by sharp personal attacks in recent Bundestag speeches. The intense phase begins on 6 January 2025.
- **Major democratic parties publish election programs:** On 17 December 2024, SPD, CDU/CSU, Greens and FDP published their campaign programs, focusing on the economy, social policy and migration as the top three issues.
- **Election outlook:** Current polling indicates a high likelihood of a CDU/CSU-led coalition with the SPD, potentially marking the end of Chancellor Olaf Scholz's political career after the election.
- **The true cost of German labor:** Germany's high social contributions and income taxes weaken its competitiveness in the global business arena.

If Germans voted today, ...

...the CDU/CSU would likely form a coalition with the SPD. CDU/CSU leader Friedrich Merz would most likely be the next Chancellor.



Person of the Week

Frank-Walter Steinmeier

Federal President

Usually confined to ceremonial duties, Steinmeier now plays a crucial constitutional role following the Chancellor's lost vote of confidence. By dissolving the Bundestag, he will pave way for new elections, ensuring a smooth democratic transition.



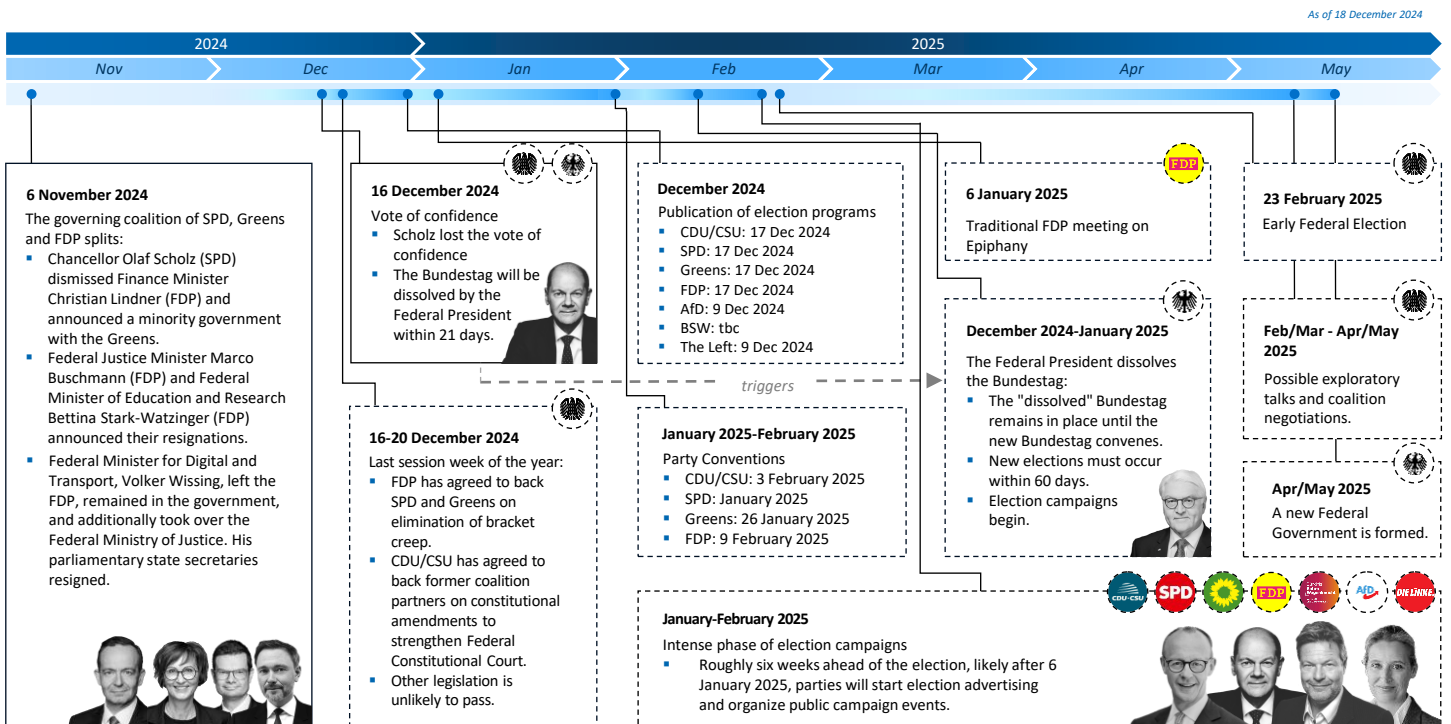
“The end of the coalition government is not the end of the world.”

Walter Steinmeier, Federal President of the Federal Republic of Germany

One day after the break-up of the German coalition on 7 November 2024

MACRO LEVEL: In Scholz we trust? “No”, votes Bundestag, kicking off the election campaign.

Timeline for the road to the 2025 Federal Election



Chancellor Scholz faced and lost a vote of confidence

The German Bundestag denied Chancellor Olaf Scholz (SPD) its confidence.

Chancellor Scholz's speech

In his statement, Scholz justified the vote of confidence by citing key political issues lacking parliamentary consensus and urged voters to decide Germany's political direction. The declaration sparked a heated debate between government parties and the political opposition.



The reactions



- CDU chairman Friedrich Merz called it a "day of relief" for Germany, accusing Scholz of disrespect and failed economic policies. He blamed the Greens, particularly Economics Minister Robert Habeck, for the economic crisis, rejecting higher taxes and redistribution plans as misguided.



- Habeck criticized the CDU/CSU's election program as unrealistic.



- FDP's Christian Lindner condemned SPD and Green policies, stressing that Germany cannot continue on this path.



- The debate revealed all parties are already in campaign mode, marked by sharp personal attacks.



The role of taxes and social contributions in German competitiveness

Case study: Adiós, Germany! VW Golf moving to Mexico?

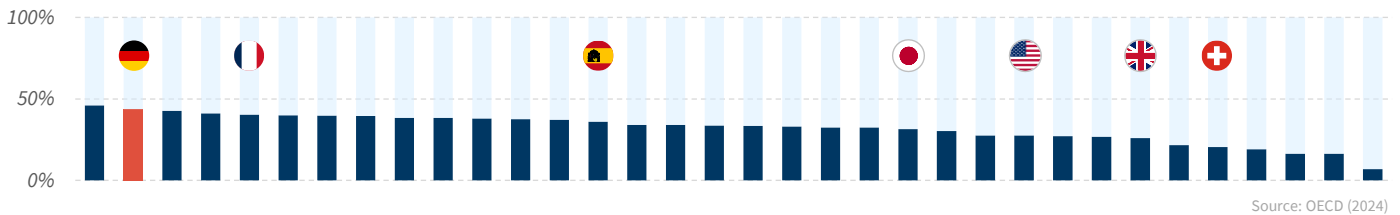
As reported on 12 December, Volkswagen is considering shifting production of its iconic Golf model from its Wolfsburg headquarters to Mexico as part of its crisis response strategy.

Alongside the EU's plans to ban combustion engines from 2035 onwards, the company's intensifying labor disputes in Germany are cited as the key drivers. The management is pushing for a 10% wage reduction to fund investments, while workers demand long-term job security.



Volkswagen is the latest in a growing trend of German companies announcing layoffs or relocating production. This follows decisions by other major firms to cut a combined 71,000 jobs in 2024. Meanwhile, German businesses invested €75 billion in 2023, showing they are investing – but not in Germany. A key reason is the uncompetitive cost of German labor, driven by high non-wage expenses and income taxes.

Income tax plus employee and employer contributions less cash benefits (2023) in OECD countries, as % of labor costs

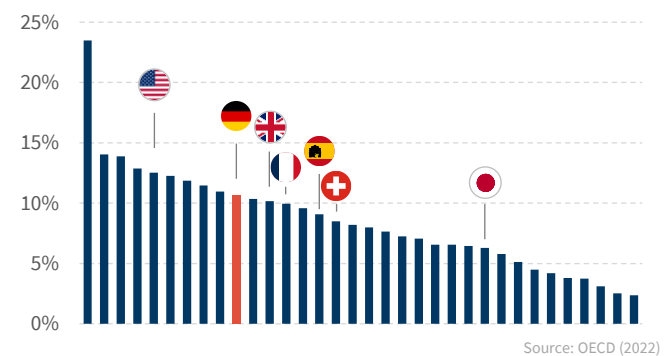


Non-wage labor costs (e.g., social security, healthcare, and pension contributions) fund essential social systems but if raised excessively, encourage automation, outsourcing, or relocation to lower-cost regions.

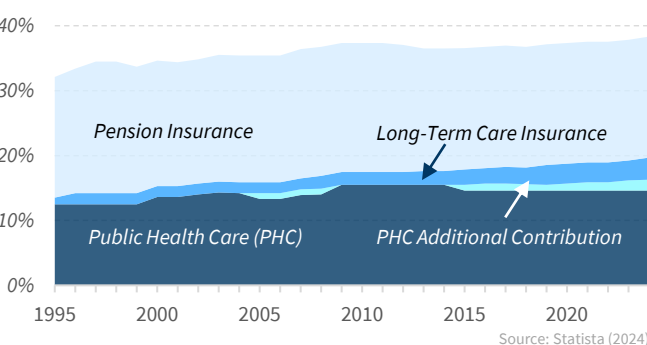
- In Germany, employers cover half of the contribution rates for health, long-term care, pension, and unemployment insurance.
- Health insurance contributions are expected to rise by 0.8 points to 17.1% in 2025 due to rising care costs, pressure from higher unemployment rates, and insufficient tax-funded subsidies to cover health expenses of long-term unemployed and refugees.

Personal income taxes impact a location's appeal by influencing workers' disposable income; the attraction and retention of skilled professionals, especially in knowledge-driven sectors; entrepreneurship and innovation.

Total revenue from tax on personal income of OECD countries as % of GDP (2022)



Social security contribution levels for publicly insured single earners (1995-2024), as % of total gross wage



Germany has high non-wage labor costs and income taxes. To stay competitive, countries must balance funding public services with supporting job creation, innovation, and talent retention.

Top issues of most probable coalition partners



CDU/CSU



SPD



Greens



Economy

- Lower corporate (max. 25%) and energy taxes.
- Simplified bureaucracy to enhance competitiveness.
- Mobilizing private capital for infrastructure projects.

- Reducing energy prices by capping grid fees.
- A €100 billion “Fund for Germany” to promote investment.
- Reduction of bureaucracy.

- A “Fund for Germany” to enable infrastructure investments.
- Lowering electricity tax.
- Reduction of bureaucracy.
- Tax credit equal to 10% of any company investments.



Finance

- Lower taxes and inflation-adjusted tax brackets to ensure higher net income.
- Tax-free overtime pay.

- Income tax relief for 95% of taxpayers by upping contributions from the top 1%.
- Easing the debt brake.

- Public investment through reform of debt brake.
- Promoting sustainable finance.



Social Policy

- Lower basic welfare.
- Limit social contributions to 40% of income.

- Increase of the minimum wage.
- Focus on affordable living.

- Higher basic child allowance and minimum wage.
- Cap for rental prices.



Migration

- Migration is tied to internal security.

- Stricter EU borders, humane deportations, selective asylum processes.

- Defense of the right to asylum and support for family reunification.



Defense

- At least 2% of GDP spent on defense; potentially even more in line with Trump’s NATO vision.
- Avoid ESG constraints for defense contracts.

- No delivery of Taurus cruise missiles to Ukraine.
- Formation of European defense union.
- Commitment to NATO 2% defense spending goal.

- Advocating for an increase of the German defense budget to significantly exceed 2% of GDP.
- Build-up of European defense industry.



Climate

- Commitment to international climate goals.
- “Technology openness”.
- Reversal of the combustion engine ban.

- Commitment to international climate goals.
- Growing renewable energy.
- Subsidizing climate friendly technology (e.g., e-mobility).

- A climate allowance will provide relief to low- and middle-income households
- Subsidizing climate-friendly technology.



Focus topics

- Focus on private investments, particularly, in public goods and defense.
- Major cuts in social spending.
- Strategic ambiguity about specific funding sources to preserve leverage in coalition negotiations.

- Positions itself as a party of social justice.
- Focus on socio-ecological transformation, a fair tax policy, and targeted relief for the working middle class.
- Public investment through the relaxation of fiscal discipline.

- Focus on investments in climate-neutral technologies, renewable energy, and a sustainable, future-oriented economy.
- Affordable housing, fair wages, social security, and equitable participation in the green transition.

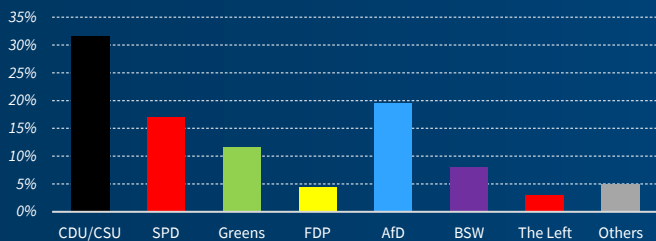


Reader question

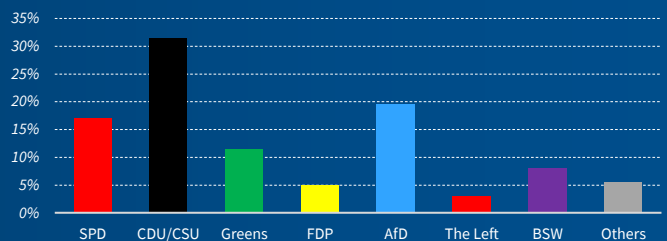
Question: "Why are the parties in the poll displayed in this particular order? Shouldn't the AfD be placed further to the left, considering it is significantly more successful than any party other than the CDU/CSU?"

Answer: Dear Reader, many thanks for your thoughtful observation! You are correct that the order of the parties is inconsistent with German reporting standards. Typically, major publications arrange the parties based on their performance in the previous election. In this case, that would be the 2021 German Federal Election. While the AfD's position remains unchanged, as it placed fifth in that election, the CDU/CSU and SPD, as well as The Left and BSW, need to switch places to accurately reflect the election results. We will make this adjustment moving forward. We truly appreciate your sharp attention to detail and your commitment to engaging with our publication so closely.

Old design



New design



Deep Dive: The Federal President

The Federal President

- **Duties:** The Federal President of Germany mainly handles administrative and representative duties, like signing laws, appointing the Chancellor, and representing Germany abroad. Occasionally, the role becomes political, such as deciding on Bundestag dissolution after a failed confidence vote or rejecting laws deemed unconstitutional.
- **Historical Context:** The limited powers of the Federal President are a safeguard learned from Germany's history. During the Weimar Republic, the Reich President had extensive powers, which Adolf Hitler exploited to consolidate his dictatorship. To prevent such an occurrence, the post-World War II constitution (Basic Law) deliberately restricts the President's political influence.
- **Election:** Unlike in the Weimar Republic, the President is elected by the Federal Assembly, not the public. The Assembly includes all Bundestag members and an equal number of state representatives chosen proportionally by state parliaments.

How is the President relevant in the context of the early elections?

- In this specific case, the Federal President has an active role in determining whether the Bundestag should be dissolved and new elections called. The President must assess whether the Chancellor's claim of lacking a majority in parliament is constitutionally valid and whether there are no alternative parliamentary majorities. Based on this assessment, the President has the authority to call early elections.

Who will likely be the next President?

- Federal President Steinmeier cannot seek a third term in 2025 due to the two-term limit.
- The next President will depend on the Federal Assembly's makeup after the Bundestag elections. A shift in favor of the CDU/CSU could lead to a President from their ranks. Speculation is mounting about the potential for the first female President, with a candidate possibly emerging from Bavaria's CSU.

Contact

Want more? Got questions or feedback? Reach us at:

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