Germany Needs Much More Than Money and Weapons

CDU, CSU, and SPD Rely on Clientelism Instead of Securing the Country's Future

Friedrich Merz's Reform Zeal Risks Being Choked by Petty Party Politics

By Bert Rürup and Axel Schrinner

March 28, 2025

The designated Chancellor Friedrich Merz and his not-yet-appointed government have already made history before even taking office: within a few weeks, they organized a parliamentary majority for a break with the decades-long stability-oriented fiscal policy.

The debt brake, enshrined in the Basic Law since 2009 – and undoubtedly creditworthy – was bypassed, a shadow budget for infrastructure amounting to 500 billion euros was created, and virtually unlimited debt-financed resources were mobilized to modernize the Bundeswehr. What many Union supporters recently still celebrated as the "black zero" is now history.

Many prominent economists see the "special fund for infrastructure" as a signal of a shift in fiscal policy. And a clear majority of German economics professors approve of the planned enormous expenditures to be allocated to defense in the future. According to the Ifo Economists Panel, 68 percent of respondents support exempting defense spending from the debt brake.

This is noteworthy. After all, economists are not particularly qualified to assess a country's military threat situation or to calculate the resulting urgent financial needs of the armed forces.

Yet a glance at introductory public finance textbooks shows that national defense is one of the state's core ongoing responsibilities, which should ideally be funded from current revenues—unless a war is imminent or already raging.

Social Contributions Soon to Reach the 50% Mark

Blanket authorizations for certain state procurements often lead to inefficiencies and wasteful, price-driving misinvestments. A prime example is the initiative, launched as part of the "Zeitenwende," to equip all Bundeswehr vehicles with digital radios—now failing because no one apparently verified whether the ordered devices would even fit into the vehicles or who would be responsible for installation.

Equally vital to safeguarding prosperity in Germany, however, would be the reforms that apparently weren't discussed—or at least no consensus reached—during the coalition talks. After all, the German economy has not seen real growth since 2018.

Real wages are at 2017 levels; manufacturing output in January was at the level of spring 2010; unemployment is as high as it was in 2014; and last year, real investment in equipment was as low as in 2016, with construction investment even below 2011 levels.

In short, Germany's social market economy has long since stopped delivering on its implicit promise of rising prosperity for all.

The consequences: populism, disillusionment with politics and democracy, and xenophobia have risen sharply. In addition, the long-known issues of the social security system are causing a rapid increase in labor-related costs, dampening the growth of net wages and pensions.

Should the pension plans of the CDU/CSU and SPD become reality—expansion of the mother's pension and fixing the pension level at 48 percent—it will only be a matter of time before the 50 percent threshold in social contributions is reached. If Chancellor Merz fails to reverse this trend, his coalition might go down in history as the last bourgeois government of the Federal Republic.

Now, at the start of what is likely to be a decisive legislative period for Germany, would be the right time to prepare citizens for cuts in the welfare state—just as President Roman Herzog did in 1997 and Chancellor Gerhard Schröder in 2003. Schröder said in the Bundestag at the time:

"We will cut state benefits, promote personal responsibility, and demand more individual contribution from everyone. All sectors of society will have to do their part."

With these words, he introduced the "Agenda 2010" in parliament, which played a key role in transforming Germany from the sick man of Europe into an engine of growth.

Whether such a turnaround is still possible is uncertain. The coming wave of demographic aging will pose a serious challenge not just for the welfare state, but for the economy and society as a whole.

One thing is clear: there is no painless solution to this long-known problem. The only way forward is to distribute the burdens as "fairly" as possible across generations and to cushion them through skilled immigration and by mobilizing labor from the "hidden reserve."

More and More Young Voters Are Leaving the Democratic Center

Even though there is no universal definition of what is “fair,” one cannot help but feel that the coalition paper from CDU/CSU and SPD is skewed against the younger generation. This is evident in the significantly increased national debt, the pension level guarantee, and tax breaks for working retirees.

With such policies, it is hardly surprising that more than half of voters aged 18 to 24 turned away from the democratic center in the last federal election and voted for Die Linke, AfD, or BSW—parties that seemingly offer simple solutions.

What Germany needs is a policy that drives comprehensive modernization. A sustainably effective welfare state is not possible without real economic growth. That, in turn, requires a greater supply of labor and capital—meaning bold private investors willing to take risks in hope of profit, and qualified, motivated workers.

Excessive bureaucracy, erratic political decisions, high taxes on income and profits, and the lack of sanctions for welfare recipients who refuse to work all paralyze this willingness.

It makes little sense to allocate large sums for defense and infrastructure modernization without reducing existing investment obstacles and giving more weight to efficiency.

A new study by Boston Consulting Group, for example, shows that an optimized energy transition alone could reduce electricity costs for industry and private consumers by nearly 20 percent and save 370 billion euros in investments by 2035—without jeopardizing climate targets. Similar efficiency reserves could likely be found in rail infrastructure upgrades or Bundeswehr modernization.

Nearly 23 years ago, the German Council of Economic Experts published its annual report: “Twenty Points for Employment and Growth.” Much of it still feels strikingly relevant today.

Perhaps the party leaders of CDU/CSU and SPD, along with their advisors, should take a day off from coalition negotiations to read it.

Because Germany doesn’t have many chances left to make a turnaround.