

The man who could lead Europe

Germany's "business model is gone", warns Friedrich Merz

Its probable next leader talks about Ukraine, saving the economy and beating the AfD in an interview



Photograph: Anna Ziegler

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IT IS A calm and confident Friedrich Merz who greets *The Economist* on February 7th at a luxury golf resort in Stromberg, a little town in Germany's Rhineland. Two weeks ago [controversy exploded](#) around the leader of the conservative Christian Democratic Union (CDU), after he relied on the hard-right Alternative for Germany (AfD) to get a non-binding motion urging restrictions on migration through parliament. Hundreds of thousands took to the streets in protest. But it does not appear to have fazed the man hoping to become Germany's chancellor after the election on February 23rd. Getting migration and the economy right are essential, he tells us, if the AfD is to be kept out of power.

Mr Merz is tall, thin and a plainer speaker than any German chancellor since at least Gerhard Schröder. His energetic campaign performances belie his 69 years. Polls suggest that the AfD controversy has not derailed his goal of a solid victory for the CDU and its Bavarian sister party, the Christian Social Union (CSU). If so, he will have first dibs on the chancellery, once he finds a coalition partner.

For worried observers, Europe risks being left behind as China and America race ahead in innovative industries like AI. Mr Merz insists that Germany has no choice but to change. "The business model of this country is gone," he states bluntly. His response begins with a war on red tape in Brussels and Berlin. "We have to do serious work on this burden of bureaucracy," he says, rattling off a list of directives and regulations, including the detailed due-diligence reporting standards that German business leaders loath.

Second, Mr Merz tells us he will take an axe to the benefits system. "We have to concentrate our public spending on, for example, the labour market", he says, so that it is "not paying people who are not willing to work." On energy, another bugbear for German industry, he says that "we have to build at least 50 gas power plants." There will be no return to Russian gas "for the time being" but Mr Merz is "absolutely" open to entering long-term contracts for (pricey) American liquefied natural gas. New nuclear reactors are also to be considered.

Pressed on whether his sums add up, he makes a vague appeal to the growth he hopes to inspire (Germany has been in recession for two years), and suggests that "there is a lot of room for changes" in the €460bn (\$474bn) federal budget. But the gap between aspiration and reality, including Germany's vast public-investment needs, makes it clear that Germany's constitutional debt brake, which limits the federal government's structural deficit to 0.35% of GDP, will have to be relaxed. "I'm open to discuss that," says Mr Merz. "But it is not our first approach."



Photograph: Anna Ziegler

For the fiscal hawks of the CDU/CSU, reforming the debt brake would be a big step. But elsewhere Mr Merz's remedies seem less than radical. "German industry is still strong," he insists. Despite the world's protectionist turn, and the prospect of imminent tariffs from America, he insists that Germany's export-led model can "definitely" survive.

Mr Merz is certainly serious about rekindling Germany's long-missed European policymaking. Strengthening Europe's voice is a Merz leitmotif, stretching from China policy to his support for Emmanuel Macron's ambitions to bolster Europe's own defence industry. Mr Merz promises to energise the "Weimar triangle" with France and Poland, musing on military co-operation as well as joint projects in AI and quantum computing. He can imagine working "very closely" with Giorgia Meloni, Italy's right-wing prime minister.

More fundamentally, Mr Merz supports a "concentric circles" idea of organising Europe—first proposed in the 1990s by Wolfgang Schäuble, a CDU grandee and Mr Merz's political mentor—in which some countries sit at the heart of integration while others share less sovereignty while receiving fewer benefits from the single market. "To be completely in or to be completely out should not be the right answer," he says, referring to Britain's relationship with the club. Greater concessions should have been made on the free movement of people to avoid Brexit, he believes.

As for Donald Trump, Mr Merz claims the American president's transparent, transactional approach means negotiating with him will be "very easy". Brussels should meet America's promised tariffs on EU exports as it did during Mr Trump's first term in 2018, with a targeted response that inflicts sufficient pain to concentrate minds.

On defence spending, mindful that even meeting the NATO floor of 2% of GDP will be tricky enough once a special fund expires in 2028, he hesitates to commit to higher numbers, though accepts "it has to be more" in the long term. And if America insists he move more quickly? "It is not my task to make President Trump happy." Meanwhile, calls from EU partners for tweaks to fiscal rules to enable greater defence spending, or even enable joint borrowing, will get short shrift. "I'm very sceptical and critical about that," he says. "I don't see it in the foreseeable future."

An early test for Mr Merz may be an American demand to help police a settlement in Ukraine. At the Munich Security Conference this weekend, which he will attend, American officials will press their European counterparts to take on more responsibility. Mike Waltz, Mr Trump's national security adviser, has publicly warned America's European allies that they must prepare to act. But the hawkish Mr Merz, who once said things like, "Peace can be found in any cemetery; only if there is freedom will there be peace," has yielded to a more cautious chancellor-in-waiting.

Sending peacekeeping troops to Ukraine "could be an option", he says, but "only after a reliable ceasefire". As for the security guarantees Volodymyr Zelensky demands, "a country at war is not a potential NATO member." Pressed, he concedes he would eventually like to see "Ukraine as a country in peace in NATO," but adds it is "too early" to consider admitting a country that does not retain full control over its territory—at least until

America has clarified its policy. Mr Merz does, though, look favourably on American proposals to use frozen Russian assets to aid Ukraine.

Mr Merz's hesitancy is understandable. He has an election to win, and the constituency in Germany for fiscal splurges and placing troops in harm's way is limited. Yet even Mr Merz's existing proposals show flaws. The border controls and rejections of asylum-seekers he demands sit awkwardly with his professed pro-Europeanism. Meanwhile, Mr Merz fulsomely backs EU proposals to ease the flow of capital across the single market while rejecting what he tells us is the "extremely unfriendly" proposed takeover by Italy's UniCredit of Commerzbank, one of Germany's biggest lenders.

Defence of national champions aside, Mr Merz's zest for injecting a bit of America-style red-blooded capitalism into Germany's dozier model is genuine. He remains at ease in the boardrooms he inhabited in his decade in the private sector, notably as the chairman of the German arm of BlackRock, an asset manager, during which time he became a multi-millionaire.

He has certainly demonstrated resilience. Mr Merz quit politics in the 2000s after Angela Merkel bested him in a CDU power struggle. But in 2018, when she resigned the party leadership, Mr Merz shocked the political world by placing his hat in the ring. That bid failed, as did a second two years later.

Mr Merz got there in the end. Yet many think the CDU/CSU should be polling better than its current 30% (see chart), given the travails of Olaf Scholz's outgoing government. Mr Merz struggles especially with women and younger voters. And although his pledge never to enter coalitions with the AfD is serious, fewer than half of German voters believe it.

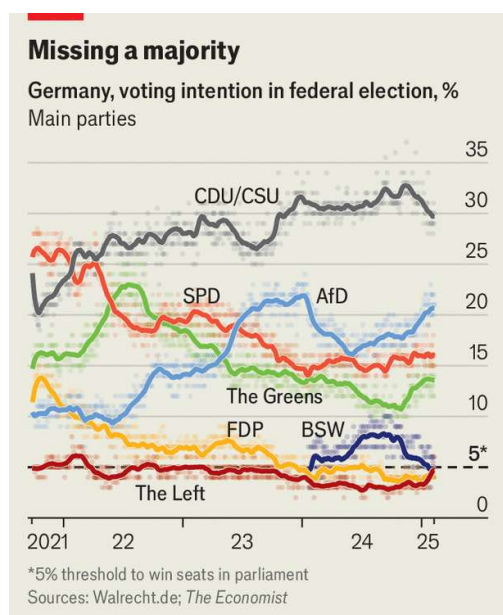


Chart: The Economist

As his opponents like to point out, Mr Merz has never run anything larger than the CDU's parliamentary block. But he will have to learn quickly. He will need a coalition partner, probably the Social Democrats or Greens (or both). And his team is frantically preparing a list of early actions to demonstrate to weary Germans that politicians can still get things done.

Mr Merz ends with a stark vision of Germany's future. Fixing the economy and irregular migration, he says, will shrink the AfD—ideally to the point (under 5% of the vote) where it is no longer in parliament. Get things wrong, and a darker future awaits. "This could be one of our last opportunities to resolve the problems before the populists [win] a majority," Mr Merz warns. ■