

Well done, Mr Merz

A fantastic start for Friedrich Merz

The incoming chancellor signals massive increases in defence and infrastructure spending



PHOTOGRAPH: GETTY IMAGES

FOR YEARS Germany's aversion to debt has been a millstone, leading to crippling underinvestment in defence and infrastructure and weighing down both the domestic economy and that of Europe as a whole. But, although he will not become chancellor for some weeks, [Friedrich Merz](#), who won Germany's election on February 23rd, has just transformed his country with a stroke of commendable boldness.

On March 4th Mr Merz revealed plans for two changes to the debt brake, a constitutional provision in place since 2009 that lets the government run only minuscule structural deficits. Next week parliament will be recalled to vote on them. In a sign that change is genuinely under way, long-term German bond yields leapt, as hard-nosed investors began to price in higher borrowing.

The first reform will establish a brake-exempted infrastructure fund of €500bn (\$535bn) over ten years, a boost worth around 1% of GDP each year. This should get the economy moving, and not before time. Germany has been in recession for the past two years, and is bumping along with roughly zero growth this year, too. The country's GDP is pretty much exactly where it was five years ago, before the pandemic struck. A sluggish Germany flattens demand across the continent.

Mr Merz's second proposal, also agreed on between his Christian Democrats and the Social Democrats who lead the outgoing government and with whom he is now in coalition talks, is even more consequential. It is to exempt any defence spending beyond 1% of GDP from the debt brake altogether. This opens the way for Germany to do what it should have done a long time ago. It can now start to rearm to a level where it can play the full part in the changed landscape of European defence that its size and geographical position demand.

Removing the constraint of the debt brake is not the same as actually spending a lot more money, of course. But Mr Merz and the Social Democrats would surely not have taken this momentous step if they did not plan to do just that. Currently Germany spends only a bare 2% of GDP on defence, just about meeting a target that NATO first set in 2014, but one that the government did not take seriously before Russia launched an all-out invasion of Ukraine in 2022.

A new NATO defence-spending target has not yet been set, but most observers reckon one is coming. It will probably be around 3.5% of gdp, perhaps a bit more. In the cold war, European countries typically spent 4-5%, and Europe is once again in a state of peril. Under Donald Trump, America no longer appears to be a dependable ally, so Europe must look to its own defences. That will require Germany to spend a lot more cash—and to spend it effectively, which has not been the case in the past.

Because the debt brake is a constitutional provision, amending it requires a two-thirds majority in the Bundestag. Hence the urgency. The hard-right Alternative for Germany party opposes any change to the rules, and the radical-left Die Linke opposes any extra defence spending. Both did well in the election; together they

will have over a third of the seats in the new Bundestag, a blocking minority. So the changes need to be made right now, before the new parliament is sworn in on March 25th. It is highly unorthodox, not least because Mr Merz said nothing about it on the campaign trail. But these are not orthodox times.

And there may be more to come. The potential new coalition is also talking about further reforms to the debt brake, which implies yet more spending on other underfunded areas. Germany was a slumbering giant. Mr Merz is waking it up. ■