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Germany's incoming government has embraced military Keynesianism

With billions for military vehicles and crumbs for green tech, Germany's fiscal shift risks fueling discontent — and extremism

For the first time in several decades, Germany is rearming. In the ongoing talks to form a coalition government, the Christian Democrats (CDU) and the Social Democrats (SPD) – the first- and third-largest parties in the *Bundestag* (parliament) after February's federal election – have agreed to exclude military spending above one per cent of GDP from the constitutionally enshrined 'debt brake' limiting fiscal deficits. The change, passed by the *Bundestag* with the votes of the Green party, marks a watershed moment in German fiscal policy and will create path dependencies for years to come.

From an economic perspective, the CDU, SPD and Greens are making a permanent commitment to military Keynesianism. Whatever form the next German government takes, it can use debt-financed fiscal packages to increase spending on drones, guns and tanks without limit. This is an unprecedented development for a country whose political culture has long treated budget deficits as anathema. In 2009, the *Bundestag* introduced the debt brake to limit the structural deficit to just 0.35 per cent of GDP from 2016.

The shock of US President Donald Trump's second administration – which has cast serious doubts on America's commitments to collective defence within NATO – has been severe enough to weaken the strict fiscal rectitude manifested in the debt brake. The problem is that the new outlook extends mainly to military spending and only in a very modest way to infrastructure and climate investments. When it comes to the rest of the economy and society, austerity, it appears, will still apply.

The embrace of military Keynesianism thus represents an implicit decision against ambitious climate protection, which has become a second-order issue. Yet, the fight against climate change is long overdue, and Trump's re-election makes it more important than ever that Europe

and Germany assume a leadership role.

Is it possible to have it all?

The green transformation requires a green Keynesianism, but the amendment of the debt brake focuses on increasing military spending. It would promote a sector that is known for its intensive consumption of fossil fuels, effectively providing a permanent subsidy for vehicles with internal combustion engines. Germany will produce more tanks and troop carriers but fewer electric vehicles and wind turbines. Rheinmetall has already announced that it could retool existing automobile plants to produce military vehicles.

Some economists argue that we can have both — more tanks and more EVs. In principle, this is certainly true. Since Germany has unused production capacities, expansionary fiscal policy should increase overall economic output substantially. But a significant increase in domestic EV and wind turbine production will happen only if the expanded fiscal policy promotes these goods. If fiscal spending is heavily skewed toward fossil-fuelled military production, as is the case with the current changes in fiscal rules, the opportunity to build green (clean-tech) industries will be squandered.

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Many people pin their hopes on the public investment fund that is part of the German fiscal reform and which allows deficit-financed spending of €400 billion ($436 billion) on infrastructure investment and €100 billion on green investments in the next 12 years. Of course, it is perfectly sensible to make more room for credit-financed investment in energy and transportation infrastructure: both are obviously necessary for any successful green transition. The additional funding for clean-tech investment is also a step in the right direction. But with merely €8.33 billion a year for green industrial policy, Germany will be unable to sustain the transition to a green economy over the long term.

To understand the large imbalance, it helps to look at some numbers. If national defence spending reaches the current target of three per cent of GDP per year, then, under the new rules, military spending of two per cent of GDP can be debt-financed. In contrast, deficit spending on infrastructure investment is limited to 0.8 per cent of GDP per year, and

for climate investment, the deficit limit is only 0.2 per cent of GDP per year. Some trade-offs cannot be denied, and this strong fiscal bias will clearly lead to a substantial reallocation of resources and production away from green technologies and toward the military sector.

If voters believe that their government is spending unlimited amounts on defence while forcing them to shoulder the burden of the green transition, support for the far-right Alternative for Germany is likely to increase even more.

Europe's recent energy crisis has already demonstrated that rising energy prices can divide societies and set back climate goals. Without a green industrial policy and an ambitious green Keynesianism, Germany's climate strategy will be confined to carbon pricing and regulation — two mechanisms that tend to make climate protection unpopular and can end up playing into the hands of fossil-fuel interests and political extremists.

If voters believe that their government is spending unlimited amounts on defence while forcing them to shoulder the burden of the green transition, support for the far-right Alternative for Germany is likely to increase even more. While military expenditures no longer know fiscal limits, social benefits and support for parental leave are already on the chopping block. This is bound to further fuel dissatisfaction and support for the far right. That outcome would jeopardise national security and climate objectives alike.

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