



## MAKING GERMAN FOREIGN POLICY FIT FOR PURPOSE



# (Even) More Money for Security and Defense

## How, For What, and Why Germany Should Increase Its Defense Budget

By Sophia Becker and Christian Mölling

In the framework of its engagement with the UN, the EU, and NATO, Germany has pledged to share the costs, risks, and responsibility of building peace and security fairly with its partners. Yet the country is failing to live up to its commitments. This costs Germany credibility as a partner on matters of defense policy and prevents it from achieving the goals it has set. A new approach must combine an increase in Germany's defense budget with adjustments to its spending targets and greater efficiency.

### INTERNATIONAL SOLIDARITY AND CREDIBILITY

The gap between aspiration and reality in German foreign and security policy was set out in stark terms by Federal President Frank-Walter Steinmeier when he addressed the UN General Assembly on September 24, 2021. Although he emphasized that Germany's partners can rely on it and competitors need to reckon with it, he also noted that Germany's and Europe's foreign policy toolbox lacks crucial diplomatic, military, civilian, and humanitarian instruments. It is only by adding them that Germany can move beyond wagging a dogmatic finger at others to truly become the reliable partner it strives to be.

Looking at the military makes it particularly obvious that Germany lacks clout in the realm of joint security and lacks political credibility as a result. As Germany has fallen short of

its commitments on defense for years, Germany's international partners – many of whom have long since ceased to regard it as reliable – will continue to raise this issue regularly with the new federal government.

Recently, for example, the German government promised its NATO allies that, given growing military risks, it would establish a total of three fully equipped army divisions by 2031. Today, it is already all but certain that this goal will not be met. These units were meant to be developed together with European partners. If this plan is not implemented, it would be quite a blow: first, to joint security; second, to the German approach of Europeanizing armaments and the military; and third, to the confidence of EU and NATO partners in Germany.

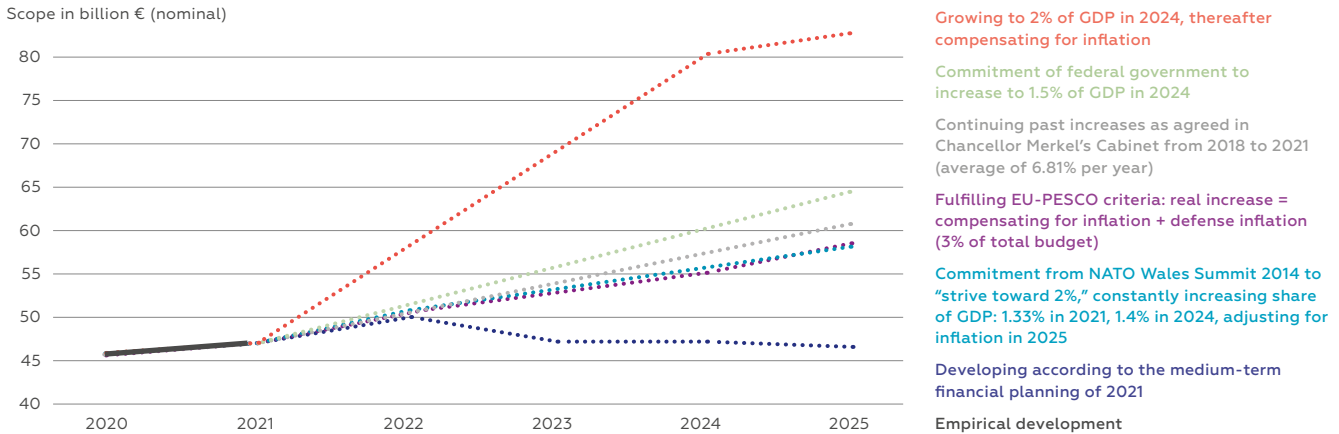
This is where money enters the picture. If Germany wants to meet all its self-imposed obligations and act on its

interests, the defense budget needs to be significantly larger. By the end of this decade, a defense budget at the current level would be eaten up just by the annual operating expenditure, which rises by around three percent each year. Here, envisaged armaments projects – especially those that are supposed to be undertaken together with partners – are not included. Moreover, maintaining the budget increase of recent years would also not be enough. At this point, it would not even be enough if Germany kept its word and raised spending to 1.5 percent of gross domestic product (GDP). This is because of an investment backlog that has built up over decades: around €37 billion since 2001 alone.

### GERMAN AMBIVALENCE Multilateral Rhetoric, Goals, and Obligations

Almost all major German political parties expressed their commitment to

### 1: Development Options for Germany's Defense Budget ("Einzelplan 14")



Source: Authors' own compilation

NATO during the recent election campaign, and many talk about Europe's importance for security and defense. Since the dawn of the Federal Republic, Germany has made multilateral action a necessary condition of its foreign and security policy. The country's involvement in Western alliances is seen as a cornerstone of German foreign and security policy. It is inconceivable for Germany to go it alone in this area. The country has made the posture of its armed forces almost entirely dependent on the impetus provided by the EU and NATO and the agreements reached within these organizations.

In the North Atlantic Treaty, the NATO member states not only make a commitment to mutual defense in the event of an armed attack, but also pledge to work together to maintain peace and security. Based on this, the member states undertake to share the burden of the costs, risks, and responsibility of joint defense. Since the 2014 NATO summit in Wales, Germany has repeatedly expressed its commitment to the two percent target, i.e., spending two percent of GDP on defense. Yet so far it has fallen far short of achieving this ambition.

In the EU, the member states made a similar commitment to each other in Article 42.7 of the Treaty on European Union. Within the framework of the EU's Permanent Structured Cooperation, better known as PESCO, Germany is committed to increasing its defense spending in real terms.

At the same time, it has long been Germany's stated goal to strengthen European cooperation in the field of defense and to advance the consolidation of the arms industry. Moreover, Germany wishes to safeguard jobs in the country while simultaneously exporting less military equipment and reducing its dependence on the United States.

#### A Lack of Follow-Through

All of these voluntary commitments and goals do not, however, change the fact that many in Germany do not recognize the importance of being able to take military action or find it contentious. There are also those who categorically reject it. Germans largely remain silent about the security policy reasons for their country's membership in the EU and NATO. Discussions on this topic are often emotionally charged: The modernization of the

army that would be necessary to meet commitments and close the capability gaps of Germany's own armed forces is routinely dismissed as military build-up. The debate about what constitutes an appropriate military contribution, in turn, is often reduced to wrangling about the usefulness of NATO's two percent target.

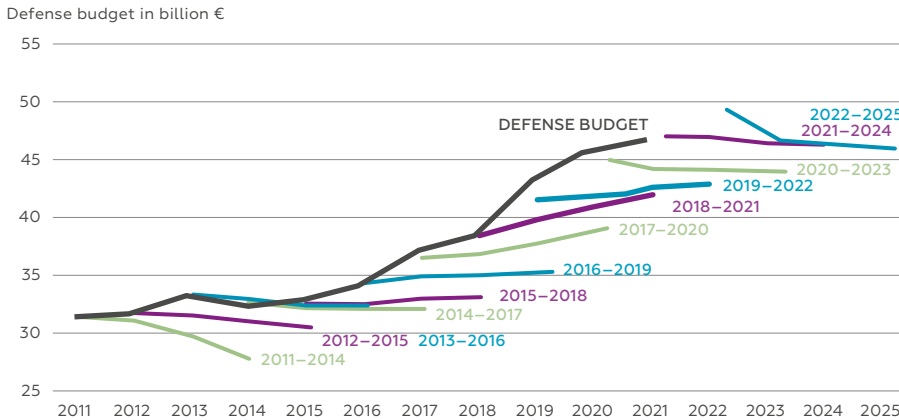
#### OPTIONS FOR THE WAY AHEAD

Germany will not resolve the tension between the rhetoric of international defense cooperation and the lack of a *raison d'être* for defense in the new electoral term. Nonetheless, the current government will still want and need to seek policy options in the field of defense. The necessary spending for this can be justified if changes are put in motion in three areas:

#### Performance Matrix: Input and Output

The criticism of NATO's two percent target and its one-sided focus on spending is justified; the figure is indeed a very crude measure. It is meant to create the financial leeway to guarantee that established military goals can be achieved. In reality, however, the target is resulting in countries

## 2: Defense Budget and Medium-Term Financial Planning (Four-Year Periods)



Source: Authors' own compilation

attempting to move many other areas into the defense budget. A spending target can become a requirement to spend, motivating industry to drive up prices but not necessarily quality.

At Germany's urging, two further criteria have already been introduced for assessing the contributions of NATO countries that measure output rather than input:

- Capabilities, i.e., military capacities that open up options for action
- Contributions, i.e., to operations and of troops

In addition, there is another – and perhaps the most important – factor: investment in innovation and modernization. The established rule of thumb is that at least twenty percent of a defense budget should regularly be invested in new materiel and technologies; otherwise, armed forces will lose their effectiveness and cease to be fit for purpose. Regular modernization of this kind is key, especially for countries such as Germany, which focus on achieving a high level of quality and good training rather than fielding mass armies.

### Expanding the Spectrum of Relevant Spending

Another justified criticism is that the current spending focus on the military is no longer appropriate given today's widened threat spectrum and the range of resources that are needed in security policy – as pointed out by the German president.

One glance at the many new challenges facing the Bundeswehr and other armed forces in Europe – such as the need to adapt to climate change and the security risks associated with this adaptation – makes the urgency for modernization and innovation obvious. Capabilities also need to be developed in the fields of cybersecurity and cyber defense. A new wave of technological innovations that are already reaching the defense sector (artificial intelligence, new materials, crypto technologies) need to be translated into military capabilities so that a loss of effectiveness can be avoided.

At the same time, Europe is still confronted by traditional challenges. The European armed forces have major capability gaps, for example when it comes to air defense or reconnaissance.

### Efficiency Through Planning Certainty

A specific problem for Germany is the low efficiency of its national spending. Although the German defense budget has been growing for years, the prevailing impression in much of the Bundestag is that this money is being wasted. A key element of the efficiency problem is that the Bundeswehr has too little planning certainty. Budget increases often come at short notice and the Bundeswehr usually does not know whether such increases will be lasting. As illustrated in Figure 2, the government's medium-term planning calls for expenditure to stagnate or even fall. In these circumstances, lengthy projects cannot be financed to completion. Major armaments projects have a duration of ten years or, in some cases, longer. For public funding to be spent effectively and responsibly, an efficient armament process therefore requires the same level of planning certainty. If this planning certainty is lacking, the federal government cannot embark on even urgently needed modernization projects, as it is unclear whether the necessary funding will be available through to the completion of the project. Funding is therefore channeled into repairs of old materiel, which can be achieved using short-term financing instead of being directed toward modernization and development. As a result, the Bundeswehr falls short in terms of its operational readiness and its ability to engage in cooperation.

### BOOSTING INTERNATIONAL CREDIBILITY AND NATIONAL EFFICIENCY

There are a growing number of voices in the United States and other NATO countries that also question the usefulness of the two percent target. This may lead to a window of opportunity for changing the criteria. That said, the federal government should not allow the suspicion to arise that the only reason it is emphasizing the need for greater spending efficiency and the in-

clusion of non-military aspects of security is because it still wants to avoid opening its purse strings and would prefer to continue to freeload off the United States and other NATO countries in the field of security policy.

The new federal government should make clear that it is committed to the **principle of fair burden-sharing** in NATO. Given Germany's own serious capability gaps, the federal government should announce that it will **boost defense spending even further**. This should be visible to partners in the next medium-term financial plan and the next budget.

In this way, the new federal government could create the space to gather support for an **adjustment of NATO's spending metrics**. In the future, greater importance should be attached to the three factors of **capabilities, concrete contributions to peace operations, and innovation**. In this context, Germany should call for the focus of contributions to be expanded to include climate and cybersecurity. As far as traditional military capabilities are concerned, incentives could be created to encourage cooperation and discourage unnecessary duplication by ensuring that a Top Ten List for Output rates countries more highly if they make significant contributions in one area.

To boost cooperation in Europe, Germany could decide to reserve a portion of its defense budget increases – say, five percent – for **cooperation projects with EU and NATO countries**, furnishing them with German equipment, and cooperation with other partners (such as Australia). This would also help to consolidate industries and military equipment in Europe.

To promote a seamless German foreign and security policy and, to this end, better integrate instruments in diplomatic, military, and humanitarian/development policy, a portion of the increases could flow into a budget

for joint projects. Calls on this budget would then have to come from at least two ministries, such as the Federal Foreign Office and the Federal Ministry of Defense.

In addition, the Bundestag can **provide planning certainty by passing a Bundeswehr Planning Act** and thus boost the efficiency of public spending. A Planning Act should stipulate funding over a longer period (five to ten years) for those long-term and strategic projects that consensus has determined are necessary. The Bundestag would determine in advance which projects meet these criteria and would add projects to the list on a regular basis.

As the Bundeswehr also still lacks many small purchases that never make it onto priority lists, but whose absence is felt in a crisis, the Bundestag should also **launch a four-year full equipment initiative** and provide funding for this. It would be counted toward NATO's two percent target and would rapidly improve the Bundeswehr's operational readiness.

NATO intends to present its new strategic concept in the summer of 2022, and the EU aims to put forward its Strategic Compass as early as the spring of 2022. **The new federal government must therefore move very quickly to ensure that it can bring together its various aspirations** – including meaningful funding and a broader spectrum. The issues on the agenda are the threat situation and burden-sharing, particularly the spectrum of security risks and instruments in the fields of climate, health, and technology. These decisions will then establish the framework for Germany's contributions.

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