

Responsible Defense Policy: **This Autumn, Germany Should Pave Its Way out of the 46 Billion Defense Investment Gap**

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By the close of the ongoing budget negotiations in November 2018, Germany will have to decide on the future of its armed forces' long-term recovery. To close the 46 billion euro gap, the defense budget and financial planning would need to be increased by approximately four billion euros each year until 2024. While endorsing their firm commitments to NATO and the EU, parliament and government have so far failed to agree on a budget fit enough to deliver on those tasks they have assigned to the Bundeswehr.

Germany's Desire for More Responsibility in Security and Defense

“More responsibility” has become a popular slogan among the German political elite since 2014. At the time, they were feeling the consequences of the role Germany had come to assume in international security, particularly when military instruments were concerned: that of a frequent bystander and commentator on the sidelines rather than an active contributor.

Since then, the ability to deliver on foreign, European and security policy and the capacity to act in defense policy have become increasingly intertwined. This nexus represents the strategic link between German foreign and security policy objectives and the financial needs of the German armed forces. The driving force behind its defense budget are the commitments Germany made towards its political partners in EU and NATO.

The future structure of the Bundeswehr is primarily determined by NATO's re-orientation towards alliance deterrence and defense – a fundamental change on which Germany and other NATO countries agreed at the summit in Wales in 2014 in response to Russia's annexation of Crimea and the war in Eastern Ukraine.

NATO is planning to complete its restructuring by 2031. Like all allies, Germany has accepted to assume some of

the responsibilities, including the establishment of three multinational army divisions, which will include eight national German brigades.

In 2016, Chancellor Angela Merkel's previous government published a White Paper on security policy which emphasized Germany's responsibility in terms of national and alliance defense. Its assessment of the dramatic strategic situation remains valid to this day. At the same time, Germany is eager to use the reform of the armed forces and command structures to involve its European partners even more closely. The key sentences of the White Paper state that “Germany is prepared to pave the way and assume a wide range of responsibilities” and that it “will provide its partners with key capabilities in a sustainable manner”.¹

Both the federal government and parliament have since agreed on measures to modernize the country's armed forces. Indeed, it was none other than the Bundestag itself that ordered the purchase of additional corvettes and tanks. However, these actions have little to do with rearmament; in fact, they are aimed at restoring the level of the Bundeswehr to that of a modern army,

Table 1: Equipment systems in the Bundeswehr in selected categories

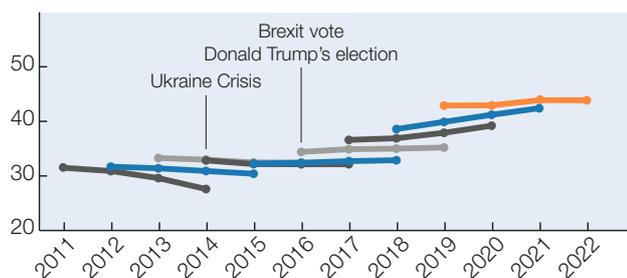
	1985	2012	2018	ca. 2030
	Cold War	Beginning of the reorientation of the armed forces	Situation today	For the planning horizon
Battle tanks	4,200	225	244	330
Combat aircrafts	875	225	222	270
Battleships	10	11	9	14

one that is technically up to standard and fit to cooperate with its partners. A comparison with the major weapons systems owned by Germany during the Cold War demonstrates that the new acquisitions envisaged until 2031 are negligible, and only planned for the next few years.

Honoring Political Promises, but Funding Still Lacking

The Ministry of Defense has promised reverse the downward trend of the defense budget. This turn becomes manifest in the changing medium-term financial planning for defense: The budgets and planning provided between 2011 to 2018 have not merely risen from 2015 in response to the Ukraine crisis; they are also rising at an increasing speed (see fig. 1)

Fig. 1: Adjustments in the medium-term financial plans for the Federal Defense Ministry 2011-2022 (in billion euros)



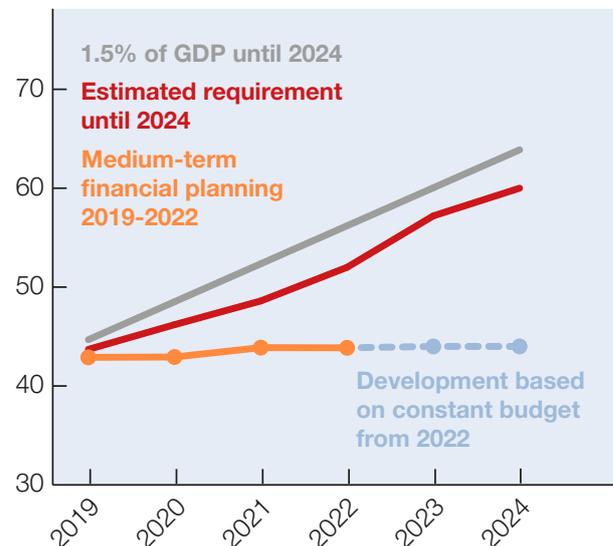
Source: Medium-term financial planning by the Federal Finance Ministry 2011-2018

That said, these budget increases alone cannot cover the already foreseeable needs, given that between 2019 and 2024, the investment gap will likely amount to some 46 billion euros.

There is a growing gap between the current medium-term financial planning and both the needs of the Bundeswehr and the government's promise to increase defense spending to 1.5 percent of gross domestic product (GDP) by 2024 (see fig 2). While the shortfall in 2019 amounts to a mere 0.8 billion euros, the discrepancy is

projected to increase over time: In 2020, it will reach roughly 3.3 billion euros; in 2021 approximately 4.7 billion euros; and in 2022 around 8.1 billion euros. If defense spending beyond 2022 continues along the line of the current medium-term financial plan, the investment gap will be 13.2 billion euros in 2023. If guided by the envisioned spending target of 1.5 percent of GDP, the shortfall will amount to no less than 16 billion euros in 2024. The cumulated annual gaps account to a total budget deficit of 46 billion euros until 2024. Given this enormous discrepancy, the additional increases to the budget included in the medium-term financial plan this past summer are little more than a drop in the ocean.²

Fig. 2: Development of the investment gap in Germany's defense budget (projections 2019 to 2024, in billions of euros)



Source: Own estimate based on public sources; medium-term financial planning by the Federal Finance Ministry for the Federal Defense Ministry 2019-2022

Without more money, it will – in all likelihood – not be possible to realize projects that are vital for the maintenance of essential capabilities, that are commitments towards the EU and NATO, or are a subject of European cooperation agreements. In practical terms, this would mean that there would be no replacement for the Bundeswehr's almost 50-year-old heavy transport heli-

copters, no joint submarine fleet with Norway, no common European drone, and no EU projects within PESCO (Permanent Structured Cooperation) which would give Germany an active say in a more efficient use of European taxpayers' money.

According to publicly available information and interviews, more than 200 armaments projects may be affected. The table below only reflects a selection of large or important projects, with an estimate of the procurement costs involved. In total, the costs of projects that are not fundable despite being indispensable for Germany's commitments amount to about 30 billion euros until 2023.

In addition, the Bundeswehr is unable to commit to new projects whose duration extend beyond 2021. Should the budget decline again after that date, such new projects will have no financial planning base, which effectively jeopardizes all longer-term projects.

Table 2:
Cost estimates for important armaments projects

Project	Comment	Costs in billion euros (estimate)
Multi-purpose combat ship180	Essential for Germany's national defense industry	6.0
Heavy transport helicopter	Necessary capability maintenance	4.0
Eurodrone	European cooperation	1.1
Submarines (German-Norwegian Cooperation)	European cooperation	2.0
Infantry fighting vehicle Puma	NATO commitment	0.6
Ground-based air defense system Patriot	Necessary capability maintenance	0.6

Quelle: Eigene Schätzung auf Basis öffentlicher Quellen

More Needed: Money First or Efficiency First?

One argument against increasing the defense budget is the armed forces' inherently inefficient way of spending the money provided. One might then consider it "analytically wrong" to implement the systematic and continuous increase of the defense budget assumed in the present paper. In a logical order, the Ministry of Defense would first have to make sure that the money already invested is put to better use. The inefficient system of armaments and procurement at the Bundeswehr are documented by the Federal Court of Auditors³ on an annual basis. The members of parliament denounce it – quite justifiably so.

Naturally, from a security policy perspective, achieving more military bang for the buck makes the most sense.

Government could even give the wrong signal if it increased the funding without demanding more efficiency. This also risks undermining the painstaking process to improve the cost-effectiveness and reliability in the arms industry and defense bureaucracy that had been initiated by budget reductions until 2015 as well as efforts to reform procurement.

In contrast, from a foreign policy perspective, an increase in defense spending would be essential. Germany could cause considerable damage to its national interests and credibility if it did not follow words with deeds. It has agreed on acting as the supporting partner in military cooperation with 20 countries in Europe. Germany's EU and NATO partners do not merely place trust in this commitment; this trust is already guiding their actions, which increases their dependence on Germany. The Netherlands is already closely cooperating with the German armed forces, while Romania and the Czech Republic are eager to make significant contributions to a common armed forces formation. Germany has the responsibility towards these partners to be a dependable partner.

If Germany proves unreliable, its current partners will enter into cooperation elsewhere. This is also true for armaments: France stands ready to build a submarine with Norway, and the United Kingdom could replace Germany as France's partner in building combat aircrafts. In the absence of other partners, a German vacuum would lead to heightened insecurity and more national solo acts.

Germany's unreliability in longer-term projects is already fueling skepticism in Paris. Berlin conveys the impression that one cannot enter a long-term defense co-operation with Germany in areas that touch upon the security core of partners because they create dependencies. That said, Germany has committed to cooperation projects with France that are particularly large and significant for Europe's capacity to act.

It is not in Germany's interest to bring the military dimension back to center stage in international relations. At the same time, Germany cannot assert its foreign policy interests unless it dispels the impression that while rhetorically committing to its responsibility in security matters, it continues to be a free rider where the military dimension of this responsibility is concerned. Germany's partners are criticizing the inconsistencies of its policies already, since while its own economic welfare is rising unabatedly, Germany leaves it to other countries to deploy – and pay for – dangerous military missions. The country desires to play a relevant role in the UN Security Council without making the necessary military contributions to peacekeeping.

Within the EU, it had been none other than Germany who had identified defense policy as a suitable policy area for strengthening the EU's political cohesion and integration. That is why Germany is taking the lead in recent initiatives like PESCO and the European Defense Fund. By the NATO summit in July 2018 at the latest, Germany has left its partners questioning whether it is indeed honoring its claims to be a leading nation and supporting partner. Yet, many partners do share the German government's analysis that the US have become less reliable, particularly since the uproar about defense spending ignited by US President Donald Trump at NATO in Brussels.

Investing in commitments made at an international and national level contributes to the maintenance of a safe political environment, which also preserves national options for foreign policy action in other areas where safeguarding trust and support for German interests are vital.

Time is another critical factor. While the call for more efficiency is appropriate, improvements will need time to be implemented – and quite probably supplementary investments. Experience over the recent years shows that improving the inefficiency in armaments spending requires a long time, with the origins of today's armaments mismanagement dating back 15 to 20 years. Ongoing projects, however small, will only become more efficient after several years, which will then release resources that can be applied to other tasks.

At the same time, throughout military history, decision-makers have invariably been guilty of the same cardinal error: They lost time waiting and were unprepared in the decisive moment when military protection was necessary. Armed forces and government repeatedly purchased the wrong weapons systems which later needed to be adapted to the actual missions at high cost.

Budget Increases – but Only under Certain Conditions

Given this dilemma, political leaders need to carefully weigh their options: Is it more responsible to spend a great deal of additional money which could ultimately prove to be a waste, or to have no weapons systems and therefore be unable to act militarily and politically? Among all the bad options, the best one appears to be to increase the defense budget in a measured way over the coming years, on average by about four billion euros per year.

Increasing the budget, however, only makes sense if additional conditions are met. Only increases that are

secured over the medium term and that are based on specific projects which will be financed to their conclusion lead to an improved performance. The political leadership of the ministry should not constantly reshuffle its finances. Rapid changes with large upward or downward swings waste additional money: When the budget diminishes, armaments projects are cancelled and initial investments forfeited. Conversely, if it grows too rapidly without clear and necessary projects, the funds are arbitrarily distributed across the armed forces for the sake of funds being spent to ensure having the same budget available in the following year. Both options undermine the political legitimacy of the expenditure as well as the security of Germany.

Sixty to eighty percent of the lifetime costs of weapons systems arise during their use. Those costs can be lowered in the long term, but only if cooperation with partners in the EU and NATO leads to the purchase of larger quantities of goods or services as well as the option of joint maintenance and use of the shared systems.

Budget increases compound the already difficult question surrounding the best use of taxpayers' money. Political leaders must be persistently keeping their eyes on the bureaucracy and demand that promised improvements are indeed implemented. If the defense ministry's budget increases considerably, parliament needs to be better equipped as well. This means that the ministry must be more transparent with numbers, but also that the Bundestag should have more personnel to make use of this increased transparency to improve control and political risk management. One option to this end would be for parliament to establish an independent office for budget control and transparency.

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Notes

- 1 Federal Ministry of Defence, *White Paper 2016: On German Security Policy and the Future of the Bundeswehr* (2016), p. 69, <<http://www.planungsamt.bundeswehr.de/resource/UlRvcjZYSW1RcEVHaUd4ck-lzQU4yNWFvejhLbjVyYnR1OCt3ZlU1N09FW-FV1NE9rbFB4YUEzY1ZacnFQVDZxN3N4T-0FLemdsVGVZblVvWi9wL1Y3ek5yblN1NW9H-cXVxTUFYUzZGZVFxVEE9/2016%20White%20Paper.pdf>> (accessed August 20, 2018).
- 2 Cf. Government draft for the federal budget 2019 and the financial plan until 2022 (2018), <https://www.bundesfinanzministerium.de/Content/DE/Downloads/Gesetze/2018-07-06-Entw-HH2019.pdf?__blob=publicationFile&v=1> (accessed August 20, 2018).
- 3 Cf. Berichte zu Bundesministerium der Verteidigung, <<https://www.bundesrechnungshof.de/veroeffentlichungen/berichte-nach-einzelplaenen/bundesministerium-der-verteidigung>> (accessed August 22, 2018).

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