

LETTER FROM BERLIN



Scholz's Tank Battle

How the German economy survived Putin.

BY KLAUS C. ENGELEN

When the Russian Federation under Vladimir Putin invaded the Ukraine on February 24, 2022, the fundamental basis of the German economy—cheap Russian gas—was put in doubt. “In both the short and the long term, Germany will be unable to end Russian gas imports without triggering economic chaos, public outrage, and opposition from many firms,” warned Hans-Werner Sinn, the former head of the prestigious Ifo Institute, a few weeks later. “For this, years of misguided energy strategy must bear much of the blame.”

As Putin's war of relentless destruction of Ukraine goes into the second year, some gloom and doom predictions on the German economy—by far the largest in Europe—didn't pan out despite Russia's termination of gas

deliveries. Though the cost has been high, Germany, its huge export-oriented economy, and its 84 million people are surviving without Russian gas.

CONTROL OVER THE CRISIS?

“We Have Gained Control Over the Crisis,” read the headline of a *Der Spiegel* interview in January with German Economy Minister Robert Habeck. “Last year, it looked like Russia's war in Ukraine was going to plunge Germany and Europe into a deep recession and a winter of gas shortages. Things have turned out differently, but major progress is still needed on climate protection.” And the key crisis manager continued: “The year was primarily awful for the people in Ukraine, those who had to die in Vladimir Putin's ludicrous war, who were tortured and who lost sons and daughters. The main thing for us

is: We, as a government, had to navigate a constantly changing and worsening crisis. In a short amount of time, we were able to assemble regulatory packages, mobilize huge amounts of capital, nationalize companies and build up a new natural gas infrastructure. It was all quite challenging. But because of that work, we are in a far better position today than we could have imagined.”

On January 31, 2023, Germany's leading business daily *Handelsblatt* came out with the front-page headline warning that 2023 will be a “Year of Stagnation” with only minimal economic growth. It also predicted “no upward movement on the financial markets.” But the paper concedes: “The German economy so far came

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through the energy crisis better than feared. The threat of a sharp economic downturn is subsiding. The signals are in the direction of stagnation.”

Looking at the Ifo Business Climate Index published January 25, 2023, Habeck and the governing traffic-light coalition of Social

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Democrats, Greens, and Liberals are able to show impressive results.

“Sentiment in the German economy has brightened. The Ifo Business Climate Index rose to 90.2 points in January, up from 88.6 points in December. This is due to considerably less pessimistic expectations. Companies were, however, somewhat less satisfied with their current situation. The German economy is starting the new year with more confidence.”

“The third quarter of 2022 in particular was much better than expected, with [growth of] plus-0.4 percent. In the two quarters of the 2022–23 winter half-year, gross domestic product will shrink, but after that things will start to pick up again,” said Timo Wollmershäuser, head of forecasts at Ifo. “In 2024, the economy will grow again by 1.6 percent.”

On January 26, 2023, the Ifo Institute added that “Sentiment among German exporters has become brighter. The Ifo Export Expectations rose to plus 4.3 points in January, up from plus 2.0 points in December. German exporters are hoping for new momentum at the beginning of the year.”

ZEITENWENDE WITH NOT MUCH IMPACT

Three days after Putin’s war against Ukraine started, German Chancellor Olaf Scholz proclaimed in a special session of the Bundestag a

Zeitenwende in the sense of a historic shift. This *Zeitenwende* was to be supported by a €100 billion special defense fund pledged to modernize the German military. In addition to the defense fund, Scholz also promised that henceforth, Germany would reach or even exceed the 2 percent GDP share for military expenditures required by NATO rules.

“We are making it convincingly clear: Germany is ready to take on leading responsibility for the security of our continent,” Scholz promised at several conferences taking stock of the alarming condition of the Bundeswehr. “As the most populous country with the greatest economic power and as a country in the middle of the continent, our army must become the cornerstone of conventional defence in Europe, the best equipped force in Europe,” continued Scholz. “The core task of the Bundeswehr is the defense of freedom in Europe”—and all other jobs have to take a second place. To make this possible, Scholz called for the German government to review reservations with regard to military export rules that affect joint defense projects.

For the unprecedented maneuver to amend the German Constitution in

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order to secure the €100 billion defense fund, Scholz needed the support of the center-right opposition of Christian Democrats and their Bavarian sister party the Christian Social Union, which he got after weeks of tense negotiations. The CDU/CSU opposition wanted to make sure that the funds could be used only for military projects. On May 30, 2022, the constitutional change for the historic *Zeitenwende* fund was put into law.

“The money is supposed to upgrade Germany’s chronically under-financed and under-equipped military, the Bundeswehr, and help Berlin to

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finally adhere to the goal of NATO countries spending at least 2 percent of their economic output on defense,” noted *Politico*. “One major investment that Berlin plans to make with the €100 billion is the purchase of U.S. F-35 stealth fighter jets, which could also carry American nuclear bombs under a decades-old German commitment to drop such bombs on Russia in the event of an attack on the West.”

EXTENSIVE LIST OF FAILURES

Alfons Mais, the chief of the German army, “sharply criticized the state of the country’s armed forces, slamming underinvestment in its military equipment against the backdrop of a Russian invasion of Ukraine,” reported *Politico* at the time. “The Bundeswehr, the army that I am privileged to lead, is more or less bare. The options that we can offer the politicians to support the alliance are extremely limited.”

Since Scholz’s historical *Zeitenwende* announcement, the follow-up of the chancellor and his office in the course of the first year of war turned out to be a leadership failure that may diminish Scholz’s legacy in the history books. The list of failings is long.

What was lacking at the top of the German government was, for instance, the push for a high-level strategy group—directed at taking stock of the usable military equipment that might

be offered quickly for use by Ukraine. What was lacking in Berlin was a sense that, in view of Russia's merciless war of destruction, speed was essential. But both the chancellery and the Bundeswehr leadership seem to have opted for a wait-and-see strategy.

For Scholz to stick to his promise that the new traffic-light coalition cabinet would have as many women as men, he needed to put former justice minister Christine Lambrecht, who had no prior experience in se-

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curity and military matters, as head of the Bundeswehr. As it turned out, not only the Chancellor's but also the defense minister's leadership was put into question for failing—after the spectacular *Zeitenwende* pledges—to implement as promised a major increase in military spending. As a big disappointment for many, contrary to the high expectation of new major defense projects in the wake of Scholz's *Zeitenwende* speech, not much happened as the Ukrainian war escalated.

GROSS BREACH OF PROMISE

It was no surprise that the CDU/CSU opposition leader, Friedrich Merz, in the traditional *Generaldebatte* (general debate) of the Bundestag on November 23, 2022, accused the chancellor and his government of not delivering on Scholz's promise to increase defense spending in response to Russia's invasion of Ukraine in February. "This is a gross breach of promise *vis-à-vis* the parliament and, above all, the military." As reported by Euractiv, Merz added that the way the government handles promises and treats NATO and partners was

rightfully met with irritation, and that "the national defense budget is not set to increase but rather shrink by €300 million." *Deutsche Welle* noted at the time that "Germany had already set aside a budget of €53 billion for the Defense Ministry in 2022, a 3.2 percent increase from last year. For the country to meet NATO's 2 percent target, it would need to spend around €70 billion per year."

Scholz could easily remind the CDU/CSU opposition leader that before the present coalition government came into office, for sixteen years prominent members of his party were in charge of the Bundeswehr and the chancellor's office.

Lambrecht's never-ending missteps as defense minister might have been good for mass-circulation tabloids like *Bild*, but bad for the morale of the Bundeswehr's 260,000 men and women. Early on in her term, she celebrated the delivery of 5,000 helmets to Ukraine.

Lambrecht published a strange video on social media on New Year's Eve 2022 praising herself on how many encounters she had had with interesting people during the war in Ukraine without sparing some compassionate words for the men and women who serve in Germany's armed forces—sometimes in danger-

This war is a major disturbance to Germany's industrial strategy.

ous places. The uproar over her embarrassing video made her realize that it was time to resign.

That gave Chancellor Scholz the chance to appoint a much more accepted veteran SPD colleague with long connections to the Bundeswehr, Boris Pistorius, the interior minister of Germany's Lower Saxony, to pick up the leadership pieces at the Bundeswehr.



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That was just in time for the Ukraine Defense Contact Group Meeting at Ramstein Air Base on January 20, 2023, hosted by U.S. Secretary of Defense Lloyd J. Austin III and Chairman of the Joint Chiefs of Staff General Mark A. Milley with military leaders from more than fifty other countries.

Newly appointed German Defense Minister Boris Pistorius thus came into office on the same day as he met his U.S. counterpart amid a long-smoldering toxic debate whether Germany should send Ukraine Leopard 2 tanks without the Americans joining them. Scholz insisted on having the United States on board.

Behind the German chancellor's hesitation to take the lead in sending the tanks—or suspending the export license controls of other countries—was the fear that Putin could



U.S. ARMY EUROPE PHOTO BY VISUAL INFORMATION SPECIALIST MARCUS BACHMANN/RELEASED

A Leopard 2 third-generation German main battle tank.

react by retaliating against Germany. Therefore, Scholz insisted that when increasing the level of Western assistance by sending tanks to Ukraine, the United States as the leading NATO country should be part of that move.

When it comes to Leopard 2 tanks, a German leader is in a key position. He has to lift export license controls when other countries want to deploy their Leopards to the Ukraine. Already the Poles have threatened to send some of their Leopard 2s to the Ukraine while ignoring the export license controls. There are about two thousand Leopard 2 tanks of different production cycles mostly located in Europe. In the same league as the Leopard 2 are the American M1 Abrams and the British-made Challenger 2 tanks.

There were heated exchanges at Ramstein between the U.S. military leaders and Wolfgang Schmidt, head of the Chancellery. He stuck to the Chancellor's refusal to send German Leopard 2 tanks to Ukraine without the United States also being ready to send a contingent of an equivalent number of M1 Abrams tanks.

Shortly after the Ramstein meeting, on January 25, 2023, U.S. President Joe Biden ended the stalemate. As *Politico* reported from Washington, "Weeks of squabbling opened a rare breach between two of Ukraine's top allies. ... Ultimately, [Biden] decided it was more important to show a unified front and send the tanks—a move that could go down as one of the most consequential decisions in the multinational effort to arm Ukraine." Biden agreed to send thirty-one Abrams main battle tanks to Ukraine. Germany, *Politico* reported, is sending fourteen of its own Leopard tanks to the front line, and gave permission to other countries to re-export their German-made tanks as well, for a total of eighty Leopards.

The hardline stance of Scholz let the *Politico* colleagues in Germany come to the conclusion that "Berlin doesn't trust Washington" despite the reality that Washington has about 40,000 troops in Germany and has already committed roughly \$30 billion in military aid to Ukraine (more than ten times the German total).

The highly respected observers of Eurointelligence in Brussels were also very critical about the Ramstein meeting. Under the provocative headline "The fifth column," they argued that the reason for Berlin's hesitancy is that "Scholz wants to reset relations with Russia after the war." They drew attention to "the German neo-mercantilism, that fusion of foreign and economic policy with the explicit goal of maximizing exports." They speculated that "Scholz and the SPD stand in that tradition: Industry, not foreign policy, is what the SPD understands at deep level. Neo-mercantilism reduces foreign policy strategy to industrial success. This war is a major disturbance to Germany's industrial strategy. A reset is the only plausible explanation we have why Scholz is hesitating." They went on, alleging: "The only explanation we have to explain Scholz's strange behavior is that Germany prioritizes relations with Russia over eastern Europe." And they warned, "There will be a shift in defense

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procurement because of this episode where other European countries cannot send Leopards to Ukraine because Germany retains the export license."

Chancellor Scholz defends his controversial red line on arms deliveries to the Ukraine, making clear that Berlin will not supply fighter jets to Ukraine and warning, "What harms our unity is a public competition to outdo each other along the lines of: 'battle tanks, submarines, aircraft—who is asking for more?'" ◆