



Security Policy Working Paper, No. 23/2018

The 2-Percent Objective and the Bundeswehr Discussion about the German Defence Budget

by Ulf von Krause

In 2002, NATO agreed on the “2-percent objective” and confirmed it at the 2014 Wales Summit. A lot of partners have not met it, among them Germany with around 1.25 percent. This input-oriented and imprecise parameter is characterised by a lack of internal logic. The Bundeswehr, in turn, has been under-financed for approximately 25 years, the consequences being a decreasing troop level despite new missions and deficiencies in the operational readiness of many systems. Despite its lack of logic, however, the political figure of 2 percent has brought about an effect – above all under US pressure – contributing to some trend reversal regarding the funding of the Bundeswehr. In this context, however, there are questions as to how rapidly more money may be used for projects that make sense.

The Origin and (In-) Appropriateness of the 2-Percent Objective

At the latest when the SPD formulated the slogan “Better 6 percent more spending on education than 2 percent on armaments” in its 2017 election campaign, the so-called NATO 2-percent objective – saying that 2 percent of the gross domestic product (GDP) should be used for the defence sector – divided the partners of the Grand Coalition – although the Federal Government with its then SPD Minister of Foreign Affairs Steinmeier had supported the decision of the 2014 NATO Wales Summit. The 2-percent objective confirmed in Wales dates back to 2002. When at that time the Baltic States, Bulgaria, Romania, and Slovakia had been invited to become NATO members, the alliance formulated as a precondition for entry that they should bear “a fair share” in defence costs. As a criterion, a reference value of 2 percent of GDP was set out. Prior to the 2002 Prague Summit, the United States urged that this “reference value” be applied to all member states in order to appear credible vis-à-vis the candidate countries. From the very beginning, however, this reference value has not been binding. When the 2 percent were included in the 2007 Ministerial Guidance, it was nothing but a declaration of intent. And also when in 2014 the 2-percent objective was substantiated in Wales given a changed security situation in Europe, the document called “Defence Investment Pledge” said: “Allies will ... aim to move towards the 2% guideline within a decade...”. The same phrase – “will aim to” – has been chosen for the goal to increase investments in weapon systems, including research and development, to 20 percent of defence spending within ten years (20-percent objective).

Three years after this declaration of intent, only four NATO members – the United States, Greece, Great Britain, and Estonia – met the 2 percent; Poland just fell short of the mark at 1.99 percent but all other partners of the alliance were clearly below the value; the rate for Germany was 1.24 percent. The situation is similar as far as the 20-percent investments are concerned. Nearly half of the member states met the threshold, Germany did not at 13.75 percent.¹

¹ See also NATO Public Diplomacy Division (2017): *Defence Expenditure of NATO Countries (2010-2017)*, https://www.nato.int/nato_static_fl2014/assets/pdf/pdf_2017_06/20170629_170629-pr2017-111-en.pdf

Besides, the parameter of 2 percent of GDP for the defence sector is extremely problematic because there is no clear link between GDP and defence spending. In case of Greece, the military budget share of 2.35 percent essentially reflects the drastic decline in its national economy whereas a share of 0.48 percent in Luxemburg primarily demonstrates the country's economic strength. And Germany's value of 1.24 percent results from both low-level defence spending and the sustained growth of its national economy. The different budgeting systems of the member states and conversion to US dollars also make it difficult to compare military budget shares.

On top of that, the parameter of 2 percent does not take into account that the member states only spend a part of their money on capabilities that are made available to NATO. So, for instance, the United States with its national defence spending of 3.6 percent finances a military force acting around the globe – amongst others, with bases all over the world, a major fleet of 11 aircraft carriers as well as nuclear and missile forces the majority of which operate independently from NATO. The same is true for Great Britain (2.1 percent) and France (1.8 percent) (albeit at a significantly smaller scale): Apart from the capabilities they provide to NATO, these countries also fund capabilities exclusively used nationally, such as, e.g., their nuclear forces. And Turkey maintains comprehensive land forces that are only to a limited extent geared to current NATO capability requirements; they are sometimes rather kept and at the moment also employed for purely national operational purposes.

Another fundamental weakness of both the 2-percent and 20-percent objective is the fact that they are purely input-oriented and not linked to any efficiency or effectiveness criteria. To conclude: The concept of the 2-percent objective (and of the 20-percent objective as well) is questionable; it does not measure what is intended and specialists have also referred to it as the “2-percent illusion”. Despite the fact that this criterion is inappropriate, it does have an effect in reality; experts say it is a “highly political figure” and / or an “important political symbol”.

The Bundeswehr, Chronically Underfinanced Since the 1990s

Until the end of the Cold War, Bundeswehr planning was more or less based on the principle “designed to threat”. The necessary strengths and capabilities of the German armed forces resulted from NATO and Warsaw Pact force comparison. This brought continuity. Since the mid-1960s, defence spending saw an even rise. With the end of the East-West Conflict, threat perception decreased, and society expected some “peace dividend”. Since the strength of the Bundeswehr was restricted to 370,000 soldiers by the Two-Plus-Four Treaty, it was possible to actually reduce national defence spending after 1990. However, this reduction was that massive that even as early as 1994 the level of 370,000 troops could not be funded and had to go down below the treaty-based ceiling. In other words, Bundeswehr planning became based on the principle “designed to budget”.

The new Bundeswehr missions, however, required significant investments in order to synchronise the capability spectrum with the necessities of deployments outside Germany as of 1992. That is the reason why the Bundeswehr has been chronically underfinanced since the 1990s. Several structural reforms led to additional strength reductions; finally, the Bundeswehr ended up with 180,000 troops in 2010. But none of the troop reductions was an appropriate means to balance mission, strength, and financial assets. The Bundeswehr was increasingly forced to tap its reserves; deficiencies in the operational readiness of weapon systems became more and more evident. The public could no longer turn a blind eye to this fact either. In his annual reports of 2015, 2016, and 2017, the Armed Forces Commissioner declared: “The Bundeswehr has too little of everything.”

The 2-Percent Objective and the Discussion about Defence Spending After 2014

Those who would have expected that the agreement of the Federal Government to the 2-percent objective in Wales would be used for reasoning about ending the Bundeswehr financial misery were disenchanted. Even in dealing with the 2016 defence budget, which brought about a very modest improvement, the Federal Minister of Defence did not at all rationalise the demand for more money for the Bundeswehr with the Wales commitments but with reference to current public opinion polls saying that 51 percent of the population supported an increase in defence spending. There were signs of a change from 2016 when pressure from the United States increased. US President Obama, initially during a meeting with Federal Chancellor Merkel in Hannover in April 2016, then at the NATO Summit in Warsaw, insisted that all NATO members had to try to fulfil the promise of Wales.

In the 2016 White Paper, the Federal Government had explicitly referred to the 2-percent objective. In late 2016, the Federal Chancellor at the annual national congress (Deutschlandtag) of the CDU and CSU common youth organisation (Junge Union Deutschlands) emphasised that Germany would have to massively increase its national defence budget in order to raise it from 1.2 to 2.0 percent. At the beginning of the election campaign, the US Administration even added to pressure. Newly elected President Trump and his Secretary of Defense Mattis took every opportunity to call on Germany to meet the 2-percent objective: Trump in an interview with the German tabloid Bild on 15 January 2017 (just a few days prior to his inauguration), Mattis during the visit paid by Federal Minister of Defence von der Leyen on 10 February 2017, and once again Trump during the visit of the Federal Chancellor on 17 March 2017. This repeated insistence had an effect. On 11 February 2017, the Minister of Defence said that the US position was a “fair demand”; and on 17 March 2017, the Federal Chancellor noted that they would keep moving towards the 2 percent. The at least verbal acceptance of the US Administration’s demand was taken by the SPD as a starting point in order to make the 2-percent objective an election campaign issue and seek confrontation. The SPD election programme called the NATO decision of Wales (which had been supported by the party) “wrong and silly” because its implementation would mean that Germany would then have to increase its national defence spending to 70 to 80 billion euros. In contrast, the CDU election programme included the Federal Chancellor’s position to raise expenditures step by step until 2024, moving towards the 2 percent, because this was a question of reliability. The 2018 coalition agreement then included a somewhat “softer” formulation by mentioning the NATO target corridor to be adhered to.

“Financial Trend Reversal” by the New Federal Government – the Intermediate Goal Being 1.5 Percent

However, things were initially not running smoothly regarding the implementation of this agreement. Although the 2018 draft budget adopted by the Cabinet and the 52nd financial plan for the years 2019 to 2022 envisaged an increase in defence spending by 7.5 billion euros until 2022, the Minister of Defence had demanded another 12 billion. Under ongoing US pressure, the Federal Chancellor and the Federal Minister of Defence announced on 14 and 15 May 2018 at the Bundeswehr conference for senior military and civilian Bundeswehr cadres that they saw the necessity for more money, exceeding the figures detailed in the financial plan. While Merkel brought forward her usual arguments without making any definite statements, von der Leyen de facto moved away from the idea of the Wales objective by formulating a new “intermediate goal”: 1.5 percent by 2025. And indeed, corrective actions were taken. A 38.95 billion euro budget was adopted for FY 2018 (compared to 37 billion euros for FY 2017). And the final 52nd financial plan envisages the following figures: in 2019 42.9 billion (= 1.31 percent of the GDP), in 2020 42.93 billion (= 1.28 percent), in 2021 42.88 billion (= 1.27 percent), and in 2022 42.93 billion (= 1.23 percent). This means an increase of more than 8 billion euros from 2016 to 2019 and of 11 billion euros within the financial planning period. Federal Minister of Defence von der Leyen has obviously succeeded in starting a “financial trend reversal” which she announced in late 2016. By the way, the figures of the financial plan underline the inappropriateness of the 2-percent-objective criterion. Owing to the anticipated good economic growth, the value of this parameter goes down although the amount of defence spending remains constant.

What will the Bundeswehr do with so much “Quick Money”?

The significant sums of the defence budget that had not been used in the last legislative period and were re-transferred to the Ministry of Finance – in the debate about the 2018 budget, they amounted to 2.6 billion euros, including 900 million from 2017 – raise the question, however, of to what extent additional funds for the defence budget may be brought “to the till” at all. Planning procedures and budget legislation impose strict limits here. Personnel have to be recruited and procurement as well as infrastructure projects must be fine-tuned so that adequate budgetary funds are provided, and subsequently, bids must be invited. And the delivery times of weapon systems are ten years and more, those of spare parts often several years. Therefore, attention must be paid to continuity and reliability when the financial plan is going to be transformed into “real money”, meaning in the budgets of the years to come. This especially applies to the procurement of spare parts as well: Until now, this field has not recovered from a discontinuation of orders in 2010 when the consolidation of the federal budget excessively hit the defence budget. At the same time, it seems to be mandatory to improve those instruments used in order to make budget execution more flexible. An “investment reserve” for the first time included in the 2018 budget – here, up to 500 million euros not used in due time can be pooled – is a step in the right direction.

The 2-Percent Objective: an Inappropriate Criterion with Significant Political Effects

The analysis of the NATO 2-percent objective has revealed the following: Everyone is talking about this parameter (and its associated 20-percent objective) at present but it is neither binding nor plausible. It has, however, entailed a clear internal impact in Germany, thus contributing to the realisation of the “financial trend reversal”. This change, however, cannot only be traced back to the actually inappropriate “2-percent” criterion or the expectations within the alliance. Rather, public perception of the increasingly desolate state of the Bundeswehr might also have played a role in this context. But this factor, although in varying intensities, has existed in the last two decades as well. Hence, some additional impetus from outside, a “catalyst”, was apparently necessary in order to transfer knowledge into action.

However, the decided planning still falls short of NATO partners expectations. And the fact that pressure, particularly from Washington, continues became more than obvious at the Brussels NATO Summit in July 2018. US President Trump’s threats to take appropriate steps if countries such as Germany may not increase their defence spending demonstrate that the 2-percent objective – according to a commentator – has turned into a “popular weapon”, both externally and internally.

But whether with or without threats uttered by Washington: Germany has to increase national defence spending in the future in order to reduce serious deficiencies in Bundeswehr operational capabilities. We cannot but agree to a comment talking of “25 years of naïveté” (“reduce troop strengths, mothball weapons, and then tackle more deployments outside Germany with less money”). Defence spending must increase steadily but not too rapidly. And not the input-oriented, misleading 2-percent objective ought to be the benchmark but parameters that reflect efficiency and effectiveness. The decisive criterion must be what contribution the Bundeswehr will make to the NATO capability profile and / or to the reduction of its capability shortfall.

Dr Ulf von Krause is a political scientist and publicist. He is a retired Lieutenant General who served for 42 years in the Bundeswehr planning sector and most recently as Commander, Joint Support Command. This working paper is based largely on his book “Das Zwei-Prozent-Ziel der NATO und die Bundeswehr. Zur aktuellen Debatte um die deutschen Verteidigungsausgaben” published by VS-Verlag in 2018.