

## Friedrich Merz Sets Himself Up for a Great Fall

*di Joseph C. Sternberg*

Fall officially began this week, and what a fraught one it's going to be for Germany. Chancellor Friedrich Merz is promising an "autumn of reforms" to shake Europe's largest economy out of its torpor. If he doesn't do it, no one else will—and if Germany can't do it, no other European country can.

Germany sure needs something to change. The economy has barely expanded in inflation-adjusted terms since at least 2019, and it wasn't exactly hopping before that. Industry is hollowing out amid an energy-price crisis, regulatory suffocation and now a global trade war.

The government fisc is in reasonably good shape by European standards, but that won't last as Germany's demographics deteriorate. Meanwhile Germans are fed up with a decadelong migration crisis no one seems quite able to tackle. The general sense among voters is one of economic malaise and political frustration, and you can't blame them for feeling that way.

Mr. Merz's proposed solution to the economic piece of this is, astonishingly for Europe, mostly correct. A consistent focus has been reform to the flagship social-welfare program for working-age people, known as *Bürgergeld*, or "citizens' money." The aim is to tweak payment levels and work requirements to bring more people into the labor force. Sufficiently aggressive reforms could increase hours worked each year by the [equivalent of 149,000 full-time jobs](#) and save Berlin €4.5 billion a year, the IFO think tank estimates.

Mr. Merz is also talking about reforms to the state pension system, equivalent to America's Social Security. "The intergenerational contract must be rethought," he told lawmakers in [an address earlier this month](#) as he warned that the current system is unsustainable. Reforms [might include](#) adjusting future benefits in line with fiscal

sustainability and shifting to a funding model less dependent on current tax receipts to pay current benefits.

All this follows a series of efforts to make Germany a more attractive place to do business. That includes a gradual reduction in some corporate taxes, although these mainly won't take effect for several years, and commitments to cut back the regulatory and administrative red tape that strangles German businesses.

The political pitfalls in all this are easy to see, so kudos to Mr. Merz for proposing any of it. He rode to power after February's election on a wave of popular frustration with the mismanagement of socialist Olaf Scholz's administration, but that wave didn't lift Mr. Merz's center-right Christian Democratic Union particularly high. He is locked instead in a political battle on the right with the Alternative for Germany, or AfD, and for complex political and cultural reasons trapped in a governing coalition with the dregs of Mr. Scholz's Social Democratic Party, or SPD.

The easiest thing under those circumstances would be to do nothing. Mr. Merz already has notched what most mainstream economists in Germany consider a major win: a public-works spending blowout he negotiated with the SPD in March. International attention to this maneuver focused on the half of the deal that freed up potentially unlimited money for defense. To secure that, however, Mr. Merz also agreed to an SPD demand for €500 billion in public "investment" over 12 years.

Economists have been begging Berlin for this kind of Keynesian boost for years. Anyone who's driven on a German Autobahn, ridden on a German train, or tried to use German broadband can attest the country needs a building binge. But Mr. Merz seems to understand that the economy needs a lot more—a private investment boom. Reforming the welfare state is a crucial step to get there.

Of the items on his to-do list, the welfare reform may be closest to the sweet spot between political feasibility and economic impact. But he'll need to drag an unwilling SPD along with him, and the center-left party views the social-welfare state as its great achievement. Pension reform may be a step too far. Proposed reforms to bureaucracy are trapped, tellingly, in a thicket of study committees and the like.

Looming larger than any of those individual political concerns, however, is the problem of trust. European voters love the perceived security of their welfare states. Reform

requires that a politician persuade voters that the status quo is broken and that the proposed future will be better. It's a giant leap of faith, and one can see in Emmanuel Macron's fading fortunes in France what happens once a politician loses voters' trust. Germany hasn't sunk to French levels of political dysfunction, but the rise of the AfD and various protest parties of the left show that Germans are losing patience with and trust in mainstream politicians like Mr. Merz. His "autumn of reforms" gimmick amounts to a plea to voters to trust that he has a complete economic plan and that it's a good one. Both things may even be true. Now we wait to see if voters will believe either.