Funding the Future

# The price of Germany's black zero: the neoliberal polic...

Published: September 7, 2026, 6:20 am

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The Alternative für Deutschland (AfD) is Germany’s far-right political party, which won a major political victory in the former East German state of Saxony-Anhalt this weekend, possibly giving it a chance to govern. If that happens, this will be the first far-right government in Germany since the fall of the Nazis in 1945, which, in itself, is a reasonable cause for concern.

The questions to be asked are why has this happened, and why is the far right in Germany so much more extreme in its views than many of that persuasion found in Italy and the UK, for example, not that those in either of those places hold views that I could ever embrace or accept as a basis for government?

Whilst some of the causes are similar to those that have given rise to far-right populism in countries from the USA onwards, others are peculiarly German, and none more so, apart from the process of assimilation of the former East Germany into the greater Germany we have witnessed for more than 30 years now, than Germany’s constitutionalised austerity.

This form of austerity, which is called the Schuldenbremse, or debt brake, was written into Germany’s Basic Law, or constitution, in 2009 under Angela Merkel’s first government. Under the original rule, the federal government was constitutionally limited to a structural deficit of 0.35 per cent of GDP, while the sixteen Länder were prohibited from structural borrowing altogether. Changing this constitutional rule required a two-thirds majority in both chambers of parliament, which has proved almost impossible ever since.

Since then, Germany has, in effect, made the neoliberal belief that government borrowing is inherently dangerous and should be minimised a core feature of its constitution, placing it largely beyond ordinary democratic choice whatever politicians might wish to propose.

The rule itself reflected the peculiar German ordoliberal political culture, in which fiscal restraint, monetary stability and rules constraining discretionary government action have acquired an almost moral status.

In one narrow sense, it worked. German public debt fell, as the rule demanded, from around 80 per cent of GDP after the financial crisis to approximately 60 per cent before the pandemic. The Schwarze Null, or the “black zero”, as it has become known, became a symbol of German fiscal virtue.

There was, however, another side to this supposed success. It represented institutionalised austerity, and the consequence was that Germany, inevitably, chronically underinvested. Almost all aspects of the physical infrastructure on which a modern economy depends were allowed to decay. The same trend was also seen in German business, as the declining fortunes of the VW Group appear to symbolise. The books balanced, but at an enormous cost in terms of opportunities lost within people’s everyday lives.

The impact has been seen right across Germany, but most especially in the regions that previously formed East Germany, which had suffered an extraordinary economic shock after reunification. There, industries disappeared, unemployment soared, and productive assets passed into western German and foreign ownership. People suffered both political transformation and economic dislocation.

The hope that investment might eventually close the gap between east and west was disrupted and then blocked by the “black zero” policy. The gap never disappeared as a result, while population decline, weaker economic opportunities and the departure of large numbers of younger people in pursuit of opportunities elsewhere compounded the problems in the former eastern states, such as Saxony-Anhalt.

This is not the sole reason for the rise of the far-right AfD in Germany, but that party's popularity in the former East German states is much higher than in those previously part of West Germany. Other factors, such as hostility to immigration, have played a part, but the debt brake that has fuelled austerity has led to distrust of government, institutions, reunification and political elites by creating the economic insecurity in which those sentiments can flourish. When mainstream politics abandons people to their fates, as the neoliberal debt brake did, they have no reason left to invest in the political consensus.

The AfD has exploited that. It has been all too easy. Democracy depends upon the possibility that elections can produce meaningfully different outcomes, but German voters have seen that this is not possible by voting for the formerly mainstream parties in their country. Even if those voters wanted better public services, improved infrastructure, more housing, or investment in the climate transition, the constitution said the government could not use its fiscal capacity to deliver them, meaning political choice was constrained before any election took place.

That is the fundamental problem with Germany’s debt brake. Like independent central banks, it was presented as a protection against irresponsible politicians, but in the process it protected a corrosive economic ideology from democratic challenge.

By 2023, the contradictions had become impossible to ignore. Germany's economy was stagnating, infrastructure investment was desperately needed, and the energy shock following Russia's invasion of Ukraine had exposed weaknesses in its industrial model, but the FDP, a coalition partner in the German government, insisted that the debt brake should still apply.

Then, in 2024, Germany's Constitutional Court ruled that a plan to use €60 billion of funding previously thought to be available was illegal, and Germany's government, as a result, lacked the ability to face the economic crises the country faced. Its coalition government collapsed in November 2024 and, in the election that followed in February 2025, the AfD won 20.8 per cent of the vote, roughly doubling its previous share and becoming Germany's second-largest political party.

In response, in March 2025, Germany finally amended its constitution, but only to exempt defence and security spending above one per cent of GDP from the normal debt-brake calculation. At the same time, a €500 billion infrastructure fund was created, and individual states were given additional borrowing capacity.

However, the message was clear. Defence appeared more important than meeting need, and the challenges this created were apparent. If Germany could find the fiscal capacity for defence, why could it not do so for railways, bridges, housing, public services and the climate transition? The question answered itself. It was not that Germany lacked money. The constraint was very obviously political, and unacceptable to many people.

The AfD has exploited this dissatisfaction. This is not to say that the rise of the German far right is all the result of this fiscal policy, but it is hard to avoid the suspicion that the debt brake helped create the conditions in which the far right could prosper. It constrained investment, weakened public infrastructure, limited the choices available to democratic governments and encouraged voters to believe that changing governments did not necessarily mean changing outcomes.

There is in all this the most massive warning.

German fascism is, in no small part, a reaction to neoliberal austerity.

It is also a reaction to arbitrary and unjust fiscal rules.

And it might just as much be a reaction to inappropriate monetary policy as well, imposed by central banks that are out of touch with need.

All of these policies are sold as protection against irresponsible politicians. In reality, they became protection for an economic ideology that undermined democracy itself by undermining the entire economic infrastructure it was claimed it was meant to protect.

Germany constitutionalised austerity, and it is now discovering the political price of doing so.

So might many other countries, very soon, the UK included: its independent central bank could create similar outcomes.

No wonder I am saying now is the time for a revolution that requires government to turn around and stop facing neoliberal market rules, and instead face the people it is meant to serve. Unless it does that, the price might be very high indeed.