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OPINION

Germany: The Sick Man of Europe



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In a March 2023 interview, German Chancellor Olaf Scholz promised his country economic growth reminiscent of the post-war economic miracle. “Because of big investments in climate protection, Germany will achieve growth rates for some time which we last saw in the 1950s and 1960s,” said Scholz. Germany achieved annual growth rates of around 8 percent during the 1950s and early 1960s. Chancellor Scholz reiterated his certainty in the accuracy of his March 2023 forecast during a parliamentary session on July 3, 2024. However, the reality is exactly the opposite!

Germany is once again the sick man of Europe. According to the OECD, global growth is projected to hit 3.1 percent this year, but Germany is expected to lag behind at only around 0.2 percent, the lowest of all OECD countries. On top of this, the number of company bankruptcies in Germany is higher than it has been for 10 years.

Germany was last considered the “sick man of Europe” at the end of the 1990s. However, under the leadership of Social Democrat Gerhard Schröder, significant market economy reforms were implemented, the labor market was liberalized, and the top tax rate was reduced from 53 to 42 percent. These changes were the foundation for Germany’s economic success story in the last 20 years and Angela Merkel benefited from Schröder’s reforms.

During the 16-year Merkel era, no reforms were implemented. Instead, the German energy industry has been transformed into a planned economy under the slogan of the fight against climate change. Germany decided to shut down all of its nuclear power plants and while fracking is banned, the country imports LNG gas produced via fracking from the United States.

Furthermore, the Merkel government made Germany dependent on Russian gas, despite warnings from the U.S. and countries like Poland. Electricity prices in Germany rose drastically, and not just since Putin's war against Ukraine, which only made the situation worse. The "energy transition," a major cause of many of these problems, is projected to cost Germany a total of 1.2 trillion (!) euros (about 1.3 trillion dollars) by 2035.

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One consequence of the energy transition is that it has become too expensive to produce in Germany, especially for companies that rely heavily on electricity. BASF, the world's largest chemical company, now prefers to produce in China. BASF's decision is driven by the lower electricity costs and less bureaucracy in China compared to Germany.

The economic downturn in Germany may become even worse following the European Union's decision to ban the registration of cars with combustion engines from 2035. Never in history has a country voluntarily forbid its best and most successful product, for which it is admired all over the world. I think the Chinese are very happy about this crazy decision. They can make electric vehicles much cheaper and continue to produce combustion engines at the same time.

Germany also has demographic problems, which are leading to a serious shortage of skilled labor. This shortage not only makes it more difficult to

find qualified workers, but also to find people for even the simplest jobs. In spite of high immigration, demographic issues persist because of the expansion of the welfare state. In early 2023, the government introduced *Bürgergeld* (citizens' benefit), which works like an unconditional basic income. With the state paying rent and other benefits, transfer payments for a family with two children in a city such as Munich, where housing costs are particularly high, can be as much as 3,400 euros per month.

At the same time, illegal work increased sharply in Germany. That's because the combination of citizens' benefit, for which no work is required, plus a few hours of undeclared work often means people have more money in their pockets than they would after 40 hours of hard work. According to forecasts, the money earned illegally in Germany will increase by 38 billion euros to a total of 481 billion euros this year.

The paradox: while there are 2.7 million unemployed people in Germany, for companies it is extremely difficult to find employees. Many restaurants, for example, can no longer find enough workers and the number of insolvent restaurants increased by 27 percent last year.

For many people, living on welfare is more attractive than working in the low-wage sector. Of course, this also applies to migrants. In recent years, Germany has seen a significant influx of immigrants, second only to the United States (which, however, has four times the population of Germany). The majority of these immigrants have low-level qualifications and very few are skilled workers. In fact, 82 percent of the Syrians in Germany, the largest group among asylum seekers, do not even have any professional training! Of those who receive citizens' benefit, 63 percent are migrants, and in some federal states such as Hesse, where I was born, the figure is as high as 76 percent.

And while all this is happening, more and more qualified and educated people are leaving Germany. With an emigration rate of 5.1 percent,

Germany is in third place internationally. Most emigrants – around three quarters! – hold university degrees.

A big issue is the rising crime rate among immigrants. Forty-one percent of suspected criminals are foreigners, a disproportionate figure compared with the percentage of the population. Migrants are particularly over-represented in crimes such as assault and rape.

So, Germany has a lot of problems. Added to this is the bureaucracy, which is worse than in most other nations. Building permits can take years, sometimes more than a decade. Olaf Scholz is less popular than any chancellor before and the Greens, who were still very popular a few years ago, are becoming increasingly unpopular. But regardless of the outcome of the elections next year, there is little hope that the reforms Germany so urgently needs will be implemented.

Rainer Zitelmann is the author of the books *How Nations Escape Poverty* <https://nations-escape-poverty.com/> and *The Power of Capitalism* <https://the-power-of-capitalism.com/>