

# Germany: The next sick man of Europe?

From the brink of incredible success, the new German coalition is on the verge of driving Germany back towards an almost inevitable economic abyss...

Eurocrats love to opine about European competitiveness from their lofty tax free towers. Yet the most competitive aspect of Europe remains the race to be the genuine sick man of Europe. Britain held the mantle unchallenged during the 1970's until Margaret Thatcher revitalised the nation's fortunes in an unprecedented reversal. Now the sick man of Europe mantle is hypercompetitive. Greece, Spain, Italy and Cyprus are amongst a series of basket case economies while France is on the cusp of a triple dip recession thanks to a dizzying spiral of dismal government.

However, the idea that Germany, the all-powerful hegemon of Europe, might itself biodegrade economically sounds preposterous as we can easily bear witness to roads awash with an ocean of Audis, BMWs, Mercedes and VWs. Nevertheless, the cycle is turning and Germany is once again in danger of decline. Ironically Germany was written off a decade ago, after a lavish but bruising reunification process proved the folly of top down economics: Eastern Germany remains economically patchy whereas Poland without a western '*sugar daddy*' is a remarkable economic success story. Germany's rise was thanks to the Social Democrats (SPD) who, ironically, are proving pivotal in dragging Berlin back down again. Hartz IV was a key development by Chancellor Gerhard Schroeder, at once making Germany more dynamic and igniting the incredible decade of growth that saw "*Mutti*" Merkel hectoring the rest of the EU on the virtues of fiscal prudence.

Alas the German electorate just didn't quite love Mrs Merkel

enough, voting her a poisoned chalice in the recent general election. Her third term is a coalition moving Germany left. One key SPD demand? Watering down the Hartz employment laws which they introduced! Swingeing rises in minimum wages won't help competitiveness, nor will higher taxes.

This economic paragon has obtained a complacent coalition just when it must plan for the future. Mrs Merkel hectors abroad yet appears aloof to the problems facing her homeland.

Demography is a big issue. Despite a lavish \$265 billion annual spend on family subsidies to encourage population growth, Germany is aging (already the oldest in Europe with median age of 45). Demographic studies are frightening: the German population could plunge by 21% or 17 million people to 65 million by 2060. The workforce is shrinking by 200,000 a year. Germany has fewer people in work today than it had 20 years ago. Germans tend to be guarded about immigrants – just when they need an influx.

The German state has a massive series of top down legacy projects which allied with even a much more modest than predicted population decline, can cause economic problems. German power prices are 30% above the EU average and twice that of US rivals (no wonder Daimler Benz are considering a new Mercedes factory stateside).

Scaremongering about fracking is closing the shale spigot while Mrs Merkel's knee-jerk cowardice post Fukushima in closing down all nuclear power plants will go down in history as concerted energy suicide. Germany lavishes 700 billion – 1 trillion euro subsidising erratic renewables which is, itself, er, unsustainable. This green dream is every taxpayer's worst nightmare. Mrs Merkel is invariably the woman banging her stilettos on the EU summit table demanding prudence, reciting her triptych of welfare madness (Europe is 7% world population, 25% of the global economy and 50% of Earth's social spending). Yet, Mrs Merkel herself is perilously close

to ignoring her own golden rules at home.

Despite a massive government bribe for births, Germany's demographics look shaky. An aging nation is discouraging investment and employment while demanding fiscal rectitude from eurozone neighbours. Ultimately Germany is slowing long-term. Productivity growth has been barely 0.6 percent for a decade, half the OECD rate. Right now Germany may appear the class of the field in its own backyard but then again the 'Eurotrash' economies are no match for their emerging competitors. Meanwhile Germany cannot afford to bulk up its government sector when holding together the euro vanity currency. It will soon require hard cash on top of national bills for crazy green subsidies, birth bonuses and a massive unfunded pension liability.

The German boom is close to its peak. It may soon be a sick man although probably not the sick man amongst Europe's fantasy economies. However how can the EU itself survive a bout of German influenza?