Germany Is An Economic Model For What Not To Do

By Rainer Zitelmann December 09, 2024

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Many Germans liked to see their country as a global leader in the fight against climate change. Despite Germany being responsible for only 1.5 percent of man-made CO_2 emissions worldwide, advocates for climate action argued that Germany could serve as a role model for other nations. These self-appointed "saviors of the world" believed that if Germany led the way, others would soon follow.

But it would now seem that Germany has become more of an anti-role model than a role model. Germany's economic situation is getting worse every month. Growth is lower than in almost any other OECD country.

BASF, once the largest chemical company in the world, is cutting thousands of jobs in Germany and redirecting several billion euros of investment to China. Germany's largest steel manufacturer, ThyssenKrupp, last week announced plans to cut 11,000 jobs. The company had received two billion euros in subsidies on condition that it transition to producing "green steel" using hydrogen, which is totally uneconomical. BASF and ThyssenKrupp both cited Germany's exorbitant energy prices and gargantuan bureaucracy as reasons for their decisions.

There has been a significant increase in the number of companies filing for insolvency. The current rate is 66 percent higher than the average for the month of October in the years 2016 to 2019, prior to the COVID-19 pandemic.

According to a study conducted by EY, fewer and fewer foreign companies want to invest in Germany. The number of foreign direct investment (FDI) greenfield and expansion projects in Germany has decreased by 12 percent compared to the previous year. This marks the sixth consecutive decline and the lowest level of investment activity since 2013.

EY identified Germany's energy policy as a major deterrent for industrial investors. The combination of a recessionary environment, high energy prices, and uncertainties surrounding energy supply are all highlighted as key factors, along with high labor costs and bureaucratic complexities, all of which serve to further discourage foreign investors.

Estimates of the total costs of the German climate transition vary between 1.8 trillion euros (ifo Institute) and 6 trillion euros (McKinsey). But the indirect costs are even higher. A key component of German and European climate policy is the "mobility transition," which entails a mandated shift towards e-mobility. The EU has banned the registration of cars with combustion engines from 2035. Consequently, the German automotive industry has been plunged into a severe crisis. Volkswagen has announced plans to lay off tens of thousands of employees and close multiple plants in Germany. Major automotive suppliers such as ZF, Continental, and Bosch have also announced tens of thousands of redundancies.

The German automotive industry, once a global leader that the whole world looked up to with admiration, has become a basket case. The heart of the German economy is stuttering.

Housing construction in Germany has also slumped dramatically. On the one hand, the number of immigrants arriving in Germany keeps on rising, while on the other, less and less new housing is being built. There are 20,000 building regulations and countless rules that have made building more 'climate-friendly' and far too expensive.

The origins of Germany's current economic woes can be traced back to the administration of Angela Merkel, rather than Olaf Scholz's recently collapsed government. The economic situation in Germany was good not because of, but in spite of her policies. She benefited from the market reforms and tax cuts implemented by her predecessor, Gerhard Schröder. Merkel not only failed to introduce any new reforms during her time in office, she instead exacerbated existing problems, particularly in the realm of energy policy. As was noted here five years ago, Germany's energy policy is the dumbest energy policy in the world.

The battle against climate change is often cited as the number one objective of our day and age, the one paramount issue that should guide all political decision-making. However, Germany's decision to shut down its nuclear power plants has led the country to rely on imported nuclear power and electricity from coal-fired power plants overseas. And, despite banning fracking domestically, Germany continues to import LNG gas produced through fracking from the United States. An irrational policy riddled with contradictions.

Is Germany at least the world champion in climate protection? No, Germany holds a respectable third place in the Environmental Performance Index, but in the category of climate protection, of all things, it only comes in seventh place (Great Britain is in fifth place).

Germany wanted to be world champion not only in climate policy, but also in migration and social policy. But the combination of generous social benefits and open borders has not worked. Today, 64 percent of those on welfare, known as *Bürgergeld* ("citizen's income") have a migration background. The social system is overloaded, crime is rising sharply.

Instead of being a role model for the rest of the world in climate policy and migration policy, as many German politicians had hoped, Germany has now become a cautionary tale. Once again, the model of a planned economy has failed: In a market economy, it is the companies, and ultimately the consumers, who decide what is produced. In contrast, in a planned economy, decisions are made by politicians who believe they know better than millions of entrepreneurs and consumers. In this respect, the rest of the world can learn something from Germany, namely a lesson in what not to do.

Rainer Zitelmann is a German historian, sociologist and multiple bestselling author, whose books include "How Nations Escape Poverty" , "The Power of Capitalism" and "Hitler's National Socialism." He published 29 books that have been translated into more than 30 languages. In recent years, he has written articles and been the subject of interviews in leading media such as Wall Street Journal, Forbes, Newsweek, The Daily Telegraph, The Times, Le Monde, Corriere della Sera, Israel Hayom, Frankfurter Allgemeine Zeitung, Neue Zürcher Zeitung, and numerous media in Latin America and Asia.