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Publicist Arnulf Baring Warns of a Declining Germany (1997)

In his provocatively titled book *Will Germany Fail?*, publicist Arnulf Baring calls for an end to the prevailing entitlement mentality and appeals for a renewed spirit of independence and responsibility.

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### **Will Germany Fail?**

*Farewell to our Ideal Worlds*

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Here in Germany there is still no awareness of the challenges we are facing. People do not recognize the gravity of the situation. Thus, there is no real openness to structural change, and all appeals to finally start thinking in new ways and to prepare ourselves for new times remain more or less abstract and therefore nonbinding. They have the character of Sunday sermons that are barely listened to and quickly forgotten. The federal president can say a thing or two about that; his words often meet with considerable public approval, as with his great [Berlin] speech of April 1997, but the widespread acclaim remains without consequences. Basically, our plight is still accepted with a composure – or a fatigue – that is puzzling. Germans weren't always like that.

### **The Shrinking Middle Class**

The structural crisis in industry not only relates to insufficient initiative and innovation and a dearth of new companies. Equally important is the drop in small and medium-sized businesses and the shrinking number of self-employed people. Their share of the total German workforce has shrunk in recent years from fourteen to nine percent. Each year about nine percent of small and medium-sized firms are liquidated. Even when newly founded companies are factored into the equation, we are still left with a loss of no fewer than 120,000 businesses per year. At the same time, the number of public servants increased by 120 percent between 1950 and 1987. The number of federal employees even quadrupled. One in five employees in Germany is in public service. [ . . . ]

But German society is made up of rather risk-averse types who would rather work for others. Self-employment attracts very few in this country, since it means having to continually acquire new work without the security of an employer.

And yet all the promises to preserve the world we created for ourselves are illusionary. Germany – like other countries – will have to bid farewell to the dream of guaranteed material security and lasting prosperity, farewell to the ideal of a job that is guaranteed for a lifetime.

### **Scandalous Subsidies**

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It is amazing that we continue to direct such large subsidies to branches of industry that have long since become obsolete, or are at least being phased out (whether coal or shipbuilding, steel, agriculture, or industrial remnants in the new federal states), despite the fact that everyone knows that they will never become new, viable industries. We need to focus on innovation and stop keeping old, outdated industries on life support for sentimental reasons.

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### **Fateful Unemployment**

A paradoxical situation presently exists on the German labor market. Officially, there are four to five million unemployed. Taking hidden unemployment into account, it is estimated that there are actually between six and seven million unemployed, because this figure should also include people who have found temporary work through job-creation measures as well as other would-be workers who are parked in universities as students. The true rate of unemployment is allegedly fifteen percent in the West and twenty-five percent in the East.

At the same time, however, entire occupational branches are currently dying out. Whether immigration will help rectify this situation on a long-term basis is doubtful. The Social Democratic educational policy of the late 1960s and early 1970s was based on the assumption that Germans would gradually gravitate upwards toward highly qualified professions, whereas foreigners would be left with the simple jobs. It is surprising that a party like the SPD, which is concerned with social equity, was so incredibly elitist on this point and considered it appropriate and proper to have a horizontal structure with Germans on the top and foreigners on the bottom.

In the future, however, we will not be able to avoid directing our fellow citizens toward occupations that they think are beneath them today. This pertains especially to young people at the beginning of their careers. Youth unemployment (which, of course, will not be eliminated by this alone) can become social dynamite with highly explosive potential. If large numbers of young people do not find jobs, it will have a very different effect on society than if people are forced into early retirement at fifty-five or sixty.

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In international comparison, employment is more expensive throughout all of Germany and work hours are appreciably shorter here than in other countries. In 1994, an employee in German industry worked an average of 1,527 hours annually. In the United States, in comparison, the annual working time was 1,994 hours, and in Japan it was 1,964 hours. Also, when it comes to machine running times, Germany – with sixty hours per week – was in last place, as compared with Belgium, for example, where machines run 98 hours per week. The devastating impact of this can be seen in foreign investment trends in Germany: in 1996, foreign companies only invested 1.1 billion marks here. In 1995, they still invested 18.2 billion. German investments abroad also sank within that one year from 52 billion in 1995 to 38.8 billion in 1996.

At the moment, there is no end in sight to the downward spiral. We are presently moving from the official four to five million unemployed to possibly double that, without anyone knowing how this trend can be stopped in the short term. At what point will society and the state no longer be able to live with this loss? How will we find the means for future innovations, which Germany needs if our performance is ever going to rise again?

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It is also no secret that welfare fraud is rampant. With unemployment and welfare benefits being what they are, many are better off financially if they register as unemployed and work illegally on the side or take a tax-free 590-mark [per month] job. It is unacceptable, one might think, when a drugstore owner, for instance, cannot find a full-time saleswoman, not a single young woman who is willing to take a job that pays standard wages and is regularly taxed. But many applicants tell him that they would be happy to accept an under-the-counter agreement without getting the tax office involved.

For many, one must presume, unemployment has become financially advantageous – these people are like the student who registers at the university to save money through student discounts, but who isn't interested in studying, but rather earning money.

Our generous welfare system is ruining people's work ethic, and, on top of that, it can no longer be financed. It is as simple as that.

### **Crippling Over-bureaucratization**

One significant problem that is hindering all initiatives is the country's paralyzing over-bureaucratization. "Let's begin with our legislation," wrote CDU politician Rupert Scholz. "Whereas only 612 draft bills were introduced at the federal level in the tenth election period (1983-1987), 895 were introduced in the twelfth (1990-1994), and there have already been almost 600 in the current period. Nearly 2,000 federal laws and almost 3,000 federal ordinances

with around 85,000 individual rules reflect the extent of our legislative overregulation and therefore also reflect the overwhelming demands on society. We need to quickly bid farewell to the omnipresent legislator.” Helmut Schmidt also spoke of “excessive state control through thousands and thousands of government regulations”; the texts of the laws of the Federal Republic alone comprise more than 80,000 pages. The building law alone is a jungle of legal red tape, which of course invites corruption. We are in the grips of a regulatory mania that threatens to squeeze the life out of everything.

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### **State Finances in Crisis**

The crisis facing the welfare state is most apparent in the disastrous condition of our state finances. The indebtedness of public funds rose from 20 to 900 billion marks between 1949 and 1989. In the following six years, the public debt doubled. In 1996, federal finance minister Theo Waigel took out loans amounting to roughly 195 billion marks. The lion's share of that, 135 billion marks, was not designated for the federal budget, but rather to pay back earlier loans. But even the new net debt grew in 1996 to 78.3 billion marks, which was 18.4 billion marks more than provided for in the budget plan. The debt ratio (based on the GNP) rose from 41 percent in 1989 to 60.5 percent by the end of 1996 – and for the first time exceeded the permissible limit as determined by Maastricht criteria. Debt service is correspondingly high: The federal interest burden is growing and growing. In 1990, barely 35 billion still sufficed to service the debt. In 1996, the federal finance minister reckoned with interest payments of 53.8 billion marks. That is almost twelve percent of the overall expenditures of the federal government. And the burden will continue to increase in the coming years because the federal government accrues new debt year after year (in December 1996, the mountain of debt amounted to almost 800 billion marks), so the interest burden also grows accordingly. According to calculations presented by Waigel in his medium-term financial plan in late 1996, interest payments in 2000 will amount to a good 68 billion marks. One in seven marks spent by the federal government will go toward debt service. If we add state and local government debt to that, the sum doubles, i.e., far more than 100 billion marks, just for interest!

Welfare state expenditures for 1996 amounted to about one-third of the overall national output in Eastern and Western Germany. “Our state still spends one in three marks on social welfare,” boasted Norbert Blüm in June 1996 before the Bundestag, and he added proudly, “That happens almost nowhere else in the world anymore.”

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### **The End of the Welfare State**

It is absolutely clear and indisputable that social benefits and the public debt, and thus the debt service, must be brought down considerably if our country wishes to safeguard its future.

Though one sometimes hears that certain areas, such as the defense budget (which has so often borne the brunt), should be subject to further reductions instead. But that fails to acknowledge both the ongoing importance of maintaining a rapid defense force and the relatively small size of the defense budget. In 1996, it amounted to 47,381 billion marks – not even a third of the welfare budget of the federal government alone, namely, 167,386 billion marks.

Any self-respecting society needs to provide assistance to the helpless and weak, to people who, through no fault of their own, have temporarily fallen onto hard times. That is so self-evident that it virtually goes without saying. But when we speak of the crucial overhaul of the welfare state, the issue is not support for the “ashamed poor” – as people used to say – but rather the agglomeration of state benefits that we have all come to view as welcome amenities over the past decades and that we have gladly accepted. Many have gotten so used to these benefactions that they have long taken them for granted and are often no longer aware of the extent to which their living conditions have been made easier, enhanced, enriched by public funds.

Regrettably, that is a thing of the past, simply due to a shortage of funds. The coffers are empty; federal, state, and local governments are dangerously over-indebted. Nevertheless, it is unfortunately still unclear whether the necessary rethinking process will start smoothly and soon. We definitely need both patient and adamant efforts to shake up our citizens and to make them see that business cannot continue as usual. It is irrelevant whether we speak of a community of need, solidarity, or patriotism. The important thing is the realization that the years of plenty are over. Storms are approaching, and we all have to get on deck to help weatherproof our ship. Or else it could capsize.

Of course, we have to make sure that no segment of the population is forced to carry a greater burden than others. That is why tax reform that eliminates certain write-offs, the reform of the pension and health-care systems, and the cutting of social benefits and subsidies have to go hand in hand, since each affects different groups and different interests. Social peace can only be preserved if the vast majority of our country’s people can be convinced that everyone will be affected by cutbacks, and that these cutbacks will be weighted and differentiated in order to take individual circumstances into account.

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Did the welfare state up to now actually satisfy the hopes people had in it? Didn’t it instead destroy the self-confidence of all those concerned in that they became dependent and no longer dared to rely on their own strength to take control of their own lives? On top of that, dependence on an anonymous bureaucracy creates fear, especially since groups that used to offer support and solidarity – such as families, neighborhoods, co-workers, voluntary associations – have eroded, and even disappeared entirely.

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As mentioned above, this development greatly fostered the isolation of the individual. Individuals no longer feel any kind of affiliation with a group that could help them in an emergency; instead, they see themselves referred to an anonymous bureaucracy with a series of different people handling their case, and that increases feelings of insecurity rather than creating psychological stability. But if that is so, if a dependence that undermines people's self-esteem makes them more fearful and inwardly less free, then the entire welfare state is likely established on a false premise.

On the other hand, anyone who demands ground-breaking, comprehensive changes in the public consciousness must be aware that he or she will be accused of cold-heartedness and social insensitivity (or even rightwing extremism). People will say that since the existing welfare state is regarded as leftist, anyone who speaks of its demise must, by force of necessity, occupy the right end of the political spectrum. But this objection won't gain traction, because the facts speak to the contrary. Machiavelli already observed that, "He who introduces [a new order] makes enemies of all those who derived advantage from the old order."

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### **This Republic Might Fail**

Otherwise, alas, the prognosis of a general decline, the continuation of that creeping demise that we have been experiencing for a long time, will remain the most probable development, comparable with Great Britain's decline in the 1960s and 1970s.

The sagacious Albert O. Hirschman once told me that societies never change until they experience great disaster. Until that point, they throw all caution to the wind and continue in their entrenched modes of behavior. That applies as much to socioeconomic lethargy as to the persistent, prevalent ecological nonchalance from which people will probably suddenly awaken only after millions have died in a mighty disaster. Only then will they be willing to take drastic action.

In view of our far less dramatic German circumstances, one naturally asks what it would take, at the moment, to intensify the situation to a degree that would force such a radical change. A drastic reduction in social benefits? The abolishment of the Deutschmark? The emergence of a new, radical political movement?

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In light of all this, the thought that the present regime could fail – because it was constructed in a different situation and under exceptional conditions – is perhaps not as far-fetched as it might seem at first. Can we be so sure that our state is weatherproof, that it can handle domestic and

foreign crises? Or has the mismanagement persisted for so long that we can hope it will simply continue without ending in catastrophe?

Count Harry Kessler posed this last question to Walther Rathenau in the fall of 1906. Rathenau responded, "You're mistaken. A bank like Deutsche Bank can be run by totally incompetent directors for five years before anyone on the outside notices anything, but then the decline will gradually begin. In a state like Germany, misgovernment can perhaps continue for twenty years without considerable damage, but then the consequences will suddenly start appearing everywhere."

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Source: Arnulf Baring, *Scheitert Deutschland. Abschied von unseren Wunschwelten*  
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