

Hans-Werner Sinn. *Can Germany Be Saved?: The Malaise of the World's First Welfare State.* Boston: MIT Press, 2007. xvi + 338 pp. \$29.95, cloth, ISBN 978-0-262-19558-4.



Reviewed by Georg Menz

Published on H-German (March, 2009)

Commissioned by Susan R. Boettcher

"Ich will nicht denken beim Reden.... Ich will einfach drauflos quatschen und erzählen, was in meinem Innersten rumort. Ungefiltert raus mit dem Scheiß."[1]

"Die lähmende Aussicht, dass sich nationale Politik in Zukunft auf die mehr oder minder intelligente [...] Anpassung an das Standortdiktat reduziert, entzieht der nationalen Politik [...] den letzten noch verbleibenden Sinn."[2]

In the fall of 2008, more than thirty-six years after Chilean soldiers stormed the presidential palace in Santiago, sweeping away democratically elected president Salvador Allende and ushering in the status of this remote South American nation as the world's first test tube for an ideology pioneered by Milton Friedman and Friedrich Hayek, the long-cherished wisdom of the supremacy of unregulated market forces was buried at last in the rubble of the disintegrating finance and banking landscape in the financial districts of New York City and London. Implemented, beloved, and even idolized by the Margaret

Thatcher and Ronald Reagan governments and by Western and non-Western policymakers around the globe, neoliberalism attracted an extraordinarily loyal following and radically recast the role of the state and the regulation of the market. For more than three decades, this approach had dominated the academic discipline of economics, and in Anglo-American countries it constituted the economic common sense for politicians of all stripes, lately even for those of the center-left parties.

But we come to bury neoliberalism, not to praise it, for the practical implications have inflicted a toll considerable enough to concern even our grandchildren. The environmental consequences of a doctrine that fetishized unlimited growth threaten to end civilized life on Planet Earth. The social distortions that this ideology spawned, including extreme wealth and income gaps, decreasing real incomes for the lower socioeconomic strata, societal anomie, drug and alcohol abuse, crime, violence, and other forms social of deviation, followed by rising incarceration

rates and thinly disguised assaults on civil liberties, threaten to undermine the basic foundations of liberal democracy. Electoral participation is plummeting in places where the democratic choice is limited to choosing between different varieties of neoliberalism. In Europe, the aggressively neoliberal course of the Barroso Commission has engendered a serious backlash against the very concept of European integration, which may yet come to derail the whole process. To claim that neoliberalism has merely failed would be an understatement. It has been a complete catastrophe.

It was always naïve to assume that Germany would remain immune to the siren calls of this reactionary doctrine. Hayek spent the final part of his career at the University of Freiburg, an intellectual center of ordo-liberalism, associated with writers such as Wilhelm Röpke and Walther Eucken. Contrary to popular wisdom, the postwar Federal Republic was much more "market" economy than "social," and the Social Democratic components that created the awe-inspiring *Modell Deutschland* of the 1970s were added much later and as a result of considerable union pressure. One of the centers of neoliberal thought and policy advocacy has long been the Institute for World Economics at the University of Kiel. And then there is, at the other end of the republic, Hans-Werner Sinn's Ifo Research Institute in Munich. Sinn's advocacy of neoliberal reforms of the German political economy has been nothing short of monumental. He is a prolific publicist and makes frequent appearances on television talk shows. *Can Germany still be saved?* is the unfortunate translation of his also fairly alarmist *Ist Deutschland noch zu retten?* (2005), proffered as part of a flurry of popular treatises in the early 2000s that were singularly pessimistic about the future of organized Rhineland-style capitalism.

This book is thus clearly aimed at a mass audience and not the scholarly community. It has to be seen as part and parcel of the vociferous public

relations debate which organized business and neoliberal pro-business think tanks such as Ifo or the employer-financed Institut der deutschen Wirtschaft and politicians sympathetic to the cause have engaged in since former president Roman Herzog's infamous "Ruck" speech in 1996. Neoliberal advocacy is big business in Germany. The metal sector employer association Gesamtmetall is underwriting a massive public relations campaign for neoliberal change, coordinated by the Cologne-based Institut Neue Soziale Marktwirtschaft (INSM), which draws on an annual budget of nine million euros.[3] Sinn has made appearances at several INSM-sponsored events. The institute sponsors public events, commissions journalistic reports, places advertisements in newspapers, and coordinates the journalistic activities of its prominent members. The foundation of media conglomerate Bertelsmann is equally active in funding neoliberally tinted "research," such as an annual country ranking in terms of "competitiveness." It has been consulted by both the Gerhard Schröder and Angela Merkel governments and left its fingerprints on the notorious Hartz agenda, the most serious legislative assault on the foundations of the German welfare state.

Germany needs more public intellectuals, and the number of academics able to communicate their ideas to a mass audience remains limited. In the United States, the often polemical, but readable *New York Times* columns of Paul Krugman provided a necessary outlet for criticism of the disastrous macroeconomic course of the Bush administration. But conveying often highly abstract concepts in simple language to an audience with varying backgrounds in economics is one thing; patronizing the reader and offending his intelligence another altogether. Thus, the author lectures us that though Ireland has made great economic progress in recent years, the highways are really not up to the German standard yet. This somewhat trivial observation is then not employed in a substantive fashion: for example, using it to illustrate the achievements that coordi-

nated economic planning may result in, provided it is handled in the pragmatic, foreign direct investment-oriented Irish fashion, or perhaps to point to the shortcomings of an ultimately neoliberal-tainted strategy that neglected the construction of infrastructure. But Sinn's point is a different one: neoliberalism "delivers." However, even there, no one can rival the German *Autobahn*. This rhetoric reaches the intellectual depth of the pub bore down at the local *Bierhalle*, rather than the compelling nature of both *form* and *content* one might expect from a university professor. In other words, it comes much closer to Dieter Bohlen than Jürgen Habermas.

Dieter Bohlen, infamous for his role in afflicting the atrocity that was the 1980s pop duo "Modern Talking" on Europe and the world, is also currently "doing" the talk show circuit in support of neoliberalism. If Karl Marx is to be believed and history repeats itself in a farcical fashion, then the sight of this poor man's Simon Cowell bumbling his way through a talk show in support of a "can do" Americanized economy surely must be regarded as someone's cruel caricature of Milton Friedman's 1970s television series "Free to Choose." Unfortunately, though Sinn's command of German is somewhat more sophisticated, his message is ultimately identical. Germany, we are told, is in crisis. The welfare state is an excessive and unaffordable luxury item of a bygone era. *Ungefiltert raus mit dem Scheiß*. Wages and unemployment are excessively high and unions too powerful. So far, so conventionally neoliberal—*ich will nicht denken beim Reden*. Organized business has repeated this message ad nauseam for the past decade. Neither this diagnosis, nor the "cure" suggested, is new or innovative. But no matter: *ich will einfach drauflos quatschen und erzählen, was in meinem Innersten rumort*.

Naomi Klein has recently highlighted the question of how central the message of "crisis" is for neoliberal prophets.[4] People need to believe that the crisis is real, in order to make the cruel

and destructive "cure" on offer, if not exactly palatable, then at least acceptable. But how serious the economic "crisis" is for Germany can be debated. Arguably, many of its economic problems stem from the somewhat bungled unification process. It follows that many are ultimately regionally concentrated and cannot be considered part of a systemic failure. Bavaria, presumably the author's state of residence, is almost a textbook example of the transformation of a poor, agrarian, underdeveloped region into one of Germany's economic powerhouses due to long-term strategic industrial policy decisions. In light of high-quality, low-cost competition from East Asia, the real surprise about Germany surely is not how poorly it is doing, but rather just how extensive and successful its world-leading, export-oriented, high-skill manufacturing sector still is, especially when compared to other western European countries.

In some sense, the author's thesis is a victim of its own "success" in implementation. The years of neoliberal clamor and advocacy have led to public policy entailing significant cuts in welfare spending, increasing wage disparity, the growth of poorly regulated low-wage sectors, much more aggressive employers who refuse to sign and abide by standard wage agreements, and a significantly weakened union movement. Discussions about the merits (or rather the lack thereof) of the Hartz laws, whose implications are mixed at best, continue to divide the Social Democrats internally. Much neoliberal reform has been implemented already, but the country has not been saved. This year, the numbers of individuals making recourse to soup kitchens in Germany exceeded half a million. Aggressively deflationary policy was, of course, what Heinrich Brüning had pursued in the early 1930s, too.

No informed analyst of the German economy can concur with Sinn's tired, somewhat shopworn six central policy demands as contained in this book, which are deeply tainted by neoliberal

dogma. Let us consider these in turn and identify their obvious fallacies. First, Sinn argues that wages are too high, thus working hours need to be extended while wages remain constant; yet, real wages have decreased in Germany over the course of the past ten years. Unit production costs, taking into consideration the high levels of productivity, compare favorably to the rest of the Organization for Economic Co-operation and Development (OECD) countries. Low wages are part of the problem, not the solution, as they depress domestic demand, a perennial bugbear of the German economy for the past decade. Low-income earners, not tenured economics professors, will suffer most, yet precisely the former group tends to spend a much higher proportion of its income. Sinn also explains that the wage-setting "cartels" should be abolished, so that individuals will be free to "choose" not to join trade unions. Any employment protection should be abolished, permitting "hire and fire" practices. This is a hypocritical demand coming from a tenured professor who enjoys the protection the German civil servant status affords. Moreover, an extensive literature in comparative political economy demonstrates compellingly that strong unions can contribute to strong economic growth, permit *quid pro quo* bargaining and thus long-term economic planning, and prevent labor poaching and deficits in training and education.[5] The availability of cheap labor delays the introduction of labor-saving technology, thus leading to long-term deficiencies in strategic corporate planning. Hire and fire is clearly not the solution, as the empirical evidence from the United States and the United Kingdom starkly demonstrates.

Sinn also talks about how unemployment needs to be reduced by cutting wages in the low-wage sector. Social assistance (*Sozialhilfe*) should be cut by one third, even if recipients are certifiably incapable of joining the labor market. Local communities ought to offer welfare recipients to the private sector as quasi-temporary labor agencies. Disturbing parallels can be found in this sug-

gestion to the principles at work in the National Socialist Reichsarbeitsdienst—both are essentially forced labor. Wages in the low-skill sector are already very low (hovering around three euros per hour in professions such as private security and hairdressing); yet, this state of affairs fails to create jobs. Low wages in eastern Germany have failed to attract new investment and job creation. The old neoliberal chestnut about minimum wage laws impeding job growth simply does not correspond to reality, as the examples of France and the United Kingdom demonstrate very clearly. Social assistance is very low already and merely guarantees the survival of the disenfranchised. It also constitutes a minimum basic income, below which wages cannot fall, thus preventing a return to Victorian-era poverty. It is unclear why it should be the government's responsibility to compete with private temporary labor agencies. The way forward for Germany lies in the creation of highly skilled, high-wage jobs, not facilitating Brazilian levels of income disparity.

Sinn also discusses how immigrants exploit the welfare state; hence, their eligibility for welfare transfer payments needs to be reduced immediately. This measure, he feels, will reduce the "magnet function" of the welfare state. Simultaneously, no social harmonization should be pursued at the European level to prevent mass unemployment in the poorer European Union member states. No serious scholar of migration finds empirical evidence to suggest that welfare transfer payments have any kind of magnet function, no matter how often this claim is repeated by the right-wing yellow press.[6] Many groups of immigrants to Germany already have limited or no eligibility, anyway. The economic problems of central and eastern Europe are often direct consequences of the shock therapy-style introduction of neoliberal reforms in the early 1990s. The root cause of economic malaise in the region is thus certainly not related to excessively high wages or social standards, quite the opposite.

Finally, Sinn also advocates the reduction of corporate and personal income taxes, as well as taxes on interest earnings. Growing income and wealth inequality, however, suggest that the opposite approach and more progressive taxation are necessary. Corporate tax rates were radically cut by the Schröder government and are now in line with rates elsewhere in western Europe. There is no justification for additional cuts. Taxes on interest (more specifically, capital not productively invested) need to be raised, not lowered, to combat *rentier* capitalism. Sinn also claims that caps should be introduced to limit the growth of pensions, but parents should receive additional pension contributions. Again, we see here disturbing parallels to awards granted to multiple mothers during the Third Reich. Low birth rates in Germany are linked to an archaic understanding of women and their role in childcare, leading to abysmal systems of childcare provision, especially in western Germany. Rolling out nationwide childcare provision would create jobs, encourage female labor market participation, and ultimately raise birth rates, as it has done in France.

The author's analysis is not compelling; his "solutions" are wrong-headed or even disastrous. The ideological debt to Thatcherism--and, more disturbingly, evidence of lessons clearly not learned from fascism--is clear. He makes no reflection on the obvious fallacies of neoliberalism. Clearly, as last fall's crisis has demonstrated so dramatically, the economy is too important to leave it to economists. Sinn still wants to party like it's 1979. Let us hope no one else cares to join him.

Notes

[1]. Dieter Bohlen, *Der Bohlenweg: Planieren statt sanieren* (Hamburg: Heyne, 2008), 232.

[2]. Jürgen Habermas, *Die postnationale Konstellation* (Frankfurt: Suhrkamp, 1998).

[3]. Daniel Kinderman, "Pressure from Without, Subversion from Within: The Two-Pronged

German Employer Offensive," *Comparative European Politics* 3 (2005): 432-463.

[4]. Naomi Klein, *The Shock Doctrine: The Rise of Disaster Capitalism* (New York: Macmillan, 2007).

[5]. Geoffrey Garrett, *Partisan Politics in the Global Economy* (Cambridge: Cambridge University Press Hall, 2007); and Peter and David Soskice, eds., *Varieties of Capitalism* (Oxford: Oxford University Press, 2001).

[6]. For a discussion of this point, see Georg Menz, "Useful *Gastarbeiter*, Burdensome Asylum Seekers, and the Second Wave of Welfare Retrenchment: Exploring the Nexus between Migration and the Welfare State," in *Immigration and the Transformation of Europe*, ed. Craig A. Parsons and Timothy M. Smeeding (Cambridge: Cambridge University Press, 2006).

by

If there is additional discussion of this review, you may access it through the network, at
<https://networks.h-net.org/h-german>

Citation: Georg Menz. Review of Sinn, Hans-Werner. *Can Germany Be Saved?: The Malaise of the World's First Welfare State*. H-German, H-Net Reviews. March, 2009.

URL: <https://www.h-net.org/reviews/showrev.php?id=23729>



This work is licensed under a Creative Commons Attribution-Noncommercial-No Derivative Works 3.0 United States License.