Lecture Series: *Deutsche Rede*

The Sick Man of Europe: Diagnosis and Therapy of a *Kathedersozialist*

Hans-Werner Sinn

Ifo Institute for Economic Research
Ludwig-Maximilians University of Munich

Schloß Neuhardenberg Foundation
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PRESS, PUBLICATIONS, CONFERENCES
Robert Koll
Tel. +49-89-9224-1422
Fax +49-89-9224-1901
Email Koll@ifo.de

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In the lecture series entitled “Deutsche Rede”, the speakers present their positions on the economy, culture, politics and society in Germany. The series is organised by the Schloss Neuhardenberg Foundation and recorded and broadcast live by DeutschlandRadio Berlin. The presentations are both the commencement and climax of a programming week of DeutschlandRadio Berlin in which more than 70 individual contributions examine and discuss the relevant issue of the week.

The label “Kathedersozialisten” (socialists of the chair) was assigned derogatorily to the German professors of economics who laid the foundations for Bismarck’s social reforms. In 1873, these economists founded the Verein für Socialpolitik, which in the course of time became the prominent organisation of German-speaking economists. Hans-Werner Sinn was chairman of the Verein für Socialpolitik from 1997 to 2000.

What ever happened? Courage and fortune have become rare in Germany. The economy is stagnating, the bad news is mounting. Month by month there are new bankruptcy records, many companies are in deep crisis, unemployment is mounting, and yet, the poor of the world struggle to enter the country. One European neighbour after the other has overtaken us in per capita income. Germany is the sick man of Europe, ranks lowest in growth, unable to keep up with its neighbours. Wasn't there once a *Wirtschaftswunder*? That must have been a long time ago. Today, miracles happen elsewhere.

But the dance on the volcano continues. In tourism, the Germans are world champions, and their cruise ships plough the oceans more defiantly than ever. Changing the pension system is taboo, although the children to finance it are lacking. Young people have substituted the baby carriage for a second car. Everyone dreams of love and good fortune, but children hardly ever appear in the dreams. Pensions come from the state, and electricity comes out of the socket.

The government is faint-heartedly launching reforms of the social system, but it is hindered by its own members because most citizens do not see the necessity of drastic social reforms. A government can only go as far as its voters are willing to go. It cannot ignore that about 40 percent of the voters receive the bulk of their income from the state as social transfers of one kind or another and that the taxpayers are in the minority. It can only dare to cut social benefits if it convinces its citizens that otherwise collapse is inevitable and then those who seemingly benefit from the welfare state will be among the losers.

Today I will try to develop this thought and clarify why reforms must go much further than what has been considered so far if Germany's economy is to have a future.

In the first part of the presentation I will try to convince you that the economy is indeed facing great risks and that we must act. In the second part I will describe the reforms I consider necessary.

Unemployment

The central problem of the German economy is unemployment. Unemployment does not just imply a loss of national output; it is social dynamite, which, once ignited, can cause great damage.

Today's unemployment has been building up gradually over the past thirty years and is a creeping structural problem, not a sudden crisis. In 1970, Germany had only

150,000 unemployed. This year there are 4.4 million, and next year there will be 4.5 million. These are only the official figures. If early retirees and the hidden reserve of those who are willing to work but too frustrated to even register as unemployed are added, the broader definition easily comprises 7.4 million jobless in Germany. Much unemployment was hidden in early retirement models, make-work measures and elsewhere, but hiding unemployment will not help the economy recover.

The officially measured unemployment rose in three cycles. Each cycle lasted approximately ten years and each increased unemployment by almost one million. The first cycle lasted from 1970 to 1980 and increased unemployment by about 900,000. The second cycle lasted from 1980 to 1991 and added another 700,000. The third cycle ended in 2001 and increased unemployment by 800,000 in west Germany and 1.5 million in east Germany. Now we are already in the fourth cycle and are approaching the five million mark.

To be sure, each increase in unemployment was followed by a phase of reduction. Each time the government in power applauded the apparent change in trend, but the reduction never went all the way back to the initial level. Overall, unemployment in west Germany follows a linear upward trend whose end is nowhere in sight. If east Germany is added, the trend is even more progressively upward.

The rise in unemployment is apparently not a cyclical problem. Currently, a new upturn in the business cycle is expected in Germany. But even if we experienced a super boom with a high utilisation of productive potential, we would still have about four million registered unemployed.

Germany, the laggard

Whoever does not work does not contribute to national output and does not earn any money. The economy stops growing, and the demand for the products of the business sector remains small.

During the eight years since 1995, the German economy has grown by only 10 percent in real terms. This is the lowest rate of all European countries. During the same period, the economy of the European Union averaged a growth rate of 18 percent. France grew at about the same pace, at 19 percent, and Great Britain grew by 22 percent. Germany is the laggard among all European countries.

The British successes are the late effects of Margaret Thatcher's reforms in the 1980s. Margaret Thatcher privatised the British public enterprises, broke the power of the unions and cut welfare benefits. She undertook radical reforms, the likes of which are unimaginable in Germany. I hesitate to recommend imitating them, but it is a fact that she was successful. John Major and Tony Blair have been able to harvest the fruits of her policies.

Franz Müntefering, SPD secretary-general, maintains that Germany's growth rate is so low because we are already where others still want to be. Europe is in the process of convergence and poor countries are growing faster than the rich ones. Because we are rich, he claims, it is only understandable that other countries that are still catching up are growing faster than we are.

This is a nice theory. But not all nice theories are correct. In 1979, when Margaret Thatcher was elected, Great Britain's per capita income was only half that of Germany. In the 1980s she turned the country around, and in the 1990s came the upswing. Unemployment declined and economic growth accelerated so dramatically that in 2000 the country surpassed Germany in terms of GDP per capita.

Some will claim that this is simply because east Germany with its low productivity is pulling our average down. But this is also incorrect. Great Britain has even surpassed west Germany.

Other countries are still lagging behind, but have many surpassed the German average. In 2000, the champagne was brought out in the Elysée Palace when the French knew that they would pass Germany that year. Although France also has its problems, it is still growing faster than Germany and the gap will widen in the coming years.

A number of smaller countries, too, have surpassed us in recent years. They include Finland, the Netherlands, Austria and above all Ireland, the European shooting star that had been the poorhouse of Europe just thirty years ago.

That the Austrians have also passed us is especially irritating, as we were used to looking down at our Southern neighbours and the obvious problems they had with their Austro-Socialism. Now the Austrians, having thrown off their ideological ballast, are looking down on *us* from their high mountains.

More bad news

All of this is embarrassing enough but there is even more bad news.

Last year we violated the Stability and Growth Pact with a government deficit of 3.6 percent of GDP, much to the amusement of our European neighbours. This year and next this will see repeat violations. The financial concessions in the EU budget that we will have to offer the more stable countries of Europe to avoid the prescribed penalty of about 15 billion euro will be no smaller than the penalty itself. We can forget our long-standing goal of reducing German net payments to the EU.

In recent years, the number of business bankruptcies has increased at a frightening pace. Today, in west Germany, we already have three times as many bankruptcies as ten years ago and five times as many as twenty-five years ago. The number of bankruptcies of small and medium-sized firms is still growing exponentially despite an improving economy. The big German banks were hard hit by this because they had to write off a substantial part of their loans. A drastic downgrade by the international rating agencies was the bitter consequence. Today, the best addresses are no longer located in Germany.

East Germany is also nothing to be happy about. Since 1997 it has been growing more slowly than the west. The gap between east and west is getting wider in percentage terms instead of narrower. What should have grown together, in Willy Brandt's words, is not growing together at all.

To be sure, following the massive cutbacks by the Treuhand privatisation agency, east German industry has been growing faster than west German industry, but what is growing there is only a tiny sprout. The share of industrial employment in total private employment is only 15 percent, i.e. less than half of that of west Germany. East Germany does not even reach the level of the Italian Mezzogiorno, which registers 19 percent.

In truth, east Germany is a de-industrialised zone with lifelines to west Germany. Every year an estimated 85 billion euro flows to the east via the public budgets, either in the form of unemployment compensation and pensions or via direct federal expenditures that benefit the east. The consumption of goods and services by the state, investors and private households exceeds production by about 45 percent.

Nowhere in the history of mankind has there ever been anything of a similar magnitude. Every third euro that is spent in east Germany comes from the west. Of that 75 cents is a gift and 25 cents is borrowed. That is a development that can no longer be called sustainable, to use a fashionable term.

To date, the costs of east Germany have been almost fully met by an increase in the national debt. The transfers to east Germany from reunification to the end of last year amounted to about 850 billion euro, and the national debt grew by about 770 billion euro during the same period. This policy cannot be continued since it clearly violates the European Stability and Growth Pact.

Since 2002, the permitted net borrowing has been lower than the interest payments on the public debt. In 2003, the interest burden amounted to 68 billion euro; the actual borrowing requirement stood at 76 billion euro, but permitted was net borrowing of only 63 billion euro.

Today, we already *are* the future generations that are always evoked in the context of the public debt. We must pay for the credit-financed welfare benefits that the social-liberal coalition introduced in the 1970s, and in addition we must pay for the credit-financed social transfers in the wake of German unification. Another shift of the burden into the future is not possible. From now on, the bill must be paid right away.

And just think of PISA (the OECD Programme for International Student Assessment). In the language and mathematics tests of fifteen-year-olds, Germany does not even rank in the midfield of OECD countries. Far behind the rest, the “country of poets and thinkers” also disgraces itself in an area that was once its domain and is the basis of a good measure of its self-image.

Added to all of this are the demographic problems. Germans have only few children. One hundred women give birth to only 135 children. One hundred French women bear 190 children. About forty percent of German female academics have no children at all.

For this reason, German society is ageing age faster than most others. Only some of the southern European countries do worse. In thirty years’ time, we will have twice as many elderly relative to young people than today. We are becoming a country of the aged. The power to innovate is waning, entrepreneurs are dying out, and the social insurance system is in crisis. If we keep the contribution rate and the percentage of federal subsidy to the pension system constant, then by 2035 the level of pensions will have to decline to about half of today’s value. Most of the pensions will be below the level of social assistance. An increase in the retirement age will not help much either. Old-age poverty and destitution are almost inevitable.

Even today, France has more newborns than Germany although it is still much smaller. In thirty years' time, there will be more thirty-year-old French than Germans. It is no secret how growth forces in Europe are shifting.

Bazaar economy

The acute danger facing the German economy is often played down by pointing to the high German exports in the international balance of payments statistics. But the statistics are deceiving, as they do not take into account the value added that is produced in Germany. The Audi exported from Germany, whose motor was produced in Hungary, is included one hundred percent as a German export.

This leads me to an important topic, the so-called outsourcing and offshoring of production to Eastern Europe, i.e. the shifting of labour-intensive parts of the intermediate product chain. This shift is being induced by the extremely low wages in these countries. In the new EU countries Poland, the Czech Republic, Slovakia, and Hungary they amount to one sixth of west German wages, and in Romania and Bulgaria they comprise only one seventeenth of west German wages.

Just as German big business turned to Asia to avoid high German labour costs, German small and medium-sized firms are turning to Eastern Europe. The geographic and cultural distance to us is small enough to warrant an engagement in the East at reasonable start-up costs. Whoever wants to survive in the ever intensifying competition on world markets must today shift the labour intensive parts of the intermediate product chain to low-wage countries, and German firms are increasingly doing just that.

The final assembly of the industrial products is made in Germany, but the share of value added that is incurred in our country, i.e. the share of wages, rents and profits in the total value of the final products that is accounted for by Germany, is becoming increasingly smaller. Germany is gradually evolving in the direction of a bazaar economy that supplies the world markets with products that have been produced in its East European hinterland.

Admittedly, the notion of a bazaar economy is a caricature, but it is a caricature that is approaching reality faster than many want to believe. A look at the statistics may be helpful here. They show that since about 1995, industrial production has decoupled from real value added in the manufacturing industry, whereas both values used to move in parallel. Thus, real industrial production rose by 15 percent from the first quarter of 1995 to the first quarter of this year, but real value added by German manufacturing industry increased by only five percent. Apparently the lion's share of the growth of industrial production shown in our statistics was accounted for by the increase in foreign intermediate products purchased by German industry. A ten-percent fall in employment during the same period fits this picture.

Outsourcing permits German firms to remain competitive. They can largely defend their position in the world markets. What does not remain competitive, however, is German jobs. They are being reduced at high speed. German firms remain competitive and German exports remain strong, but German workers have already lost their competitiveness. Four and a half million Germans are unemployed. Four and a half million Germans are no longer competitive.

Better and more expensive?

Whether one is competitive depends on how good one is and how expensive. That applies to a firm just as to a person who offers his labour. After PISA, it is doubtful that we are still much better than our competitors. In any case, we are much more expensive. With the exception of Norway, Germany today has the highest hourly labour costs for industrial workers in the world. Even the other Scandinavian countries and the United States have markedly lower labour costs. And Norway can afford the loss of competitiveness in industrial production because it lives off its natural resources. That country cannot be a standard for us.

If it had not been for the euro, which robbed Germany of its interest rate advantage over other countries; if it had not been for the EU single market, which removed our advantage of a large domestic market; if it had not been for globalisation with low-wage competition from the Far East; if the Iron Curtain had not come down, which has brought us low-wage competition directly at our own door step; if it had not been for all these "ifs", then we might have defended the highest hourly labour costs in the world, and we wouldn't need to cut back our welfare state.

But this speculation leads nowhere. The world did experience drastic changes during the past two decades, and we must accept that as it is. What we need is not complaining, what we need is courageous actions.

Today we find ourselves in a similar situation as at the time of Bismarck, a hundred and twenty years ago, when Germany carried out the great social reforms that were then copied by many countries. And as an economist I feel myself in a similar situation as Schmoller, Wagner, and Brentano, my counterparts at the time in the Verein für Socialpolitik, who, derided as “socialists of the chair” (*Kathedersozialisten*), helped to conceive Bismarck’s reforms. I feel an affinity to the tradition of the “socialists of the chair” because I see ourselves in a similar phase of profound change. Germany developed the welfare state further than any other country, and it feels its repercussions more strongly than others. It is high time to readjust the welfare state in order to adapt it to the changed economic environment.

If we act courageously, our polity will recover. If we pull ourselves together to implement the reforms now, growth and affluence will return to this country.

Education

What must happen? Yes, we must get better. An educational offensive must finally start.

It is not right that we do not spend as much money on public education as a share in national income as the United States and significantly less than the OECD average.

It is not right that with our half-day schools we pass up the possibility of forming precious human capital, although the entire world has all-day schools.

It is not right that we sort out pupils as early as age ten and thus overlook many talents that lie dormant in the lower strata of our population.

It is not right that our universities are prevented from competing with one another because they are bureaucratic institutions that depend on state subsidies alone.

A lot must happen here. But as energetically as we may tackle the necessary reforms, it will take at least two decades before newly educated generations of pupils and students will enter the labour markets in notable numbers. By then, the German economy may have gone into decline – unless we become cheaper at the same time.

Public sector share

Becoming cheaper is not pleasant. German jobs are expensive because of our own wage and transfer income that we receive from the state, financed by social security contributions. Nonetheless, changes must be made.

We can become cheaper if taxes and duties are reduced. For this to happen, the welfare state must be cut back. It is absurd when the state absorbs more than half –57 percent to be precise – of total gross income earned in Germany. If, on a scale of zero to one hundred, zero is the pure market economy and one hundred is pure Communism, Germany is already closer to Communism than to a market economy. The lawyer Arnulf Baring has called this “GDR light”.

This comparison is frightening because it contradicts our self-image. Truly, we no longer want to have anything to do with Communism. But the figure is correct, 57 percent – more than half. If this figure is not in line with our concept of state then we should be honest and change our concept, or keep it but alter the figure, which clearly would be the better solution.

Of course, we must also reduce other state expenditures, especially the subsidies, which are really out of place in a market economy. Coal subsidies cost us more than if we housed the miners in a hotel on Mallorca all year. Agricultural subsidies have turned our agriculture into stinking agro-factories that blight the landscape. And the depreciation privileges for investments in the Hollywood movie industry have made life difficult for the German movie industry. The list of such nonsense can be lengthened at will.

The German disease

State expenditure cuts alone are not enough, however. We must also reform the welfare state in such a way that it harmonizes better with private business. Even if the welfare state were financed by Almighty God instead of the citizens’ social security contributions and taxes, it would still generate unemployment. The simple reason is that the welfare state provides its benefits as wage replacement. Regardless of whether we think of unemployment compensation, unemployment assistance, social assistance or early retirement models, the state’s payments always flow exactly when one does not work and stop flowing to the extent that one does work.

The welfare state acts like a competitor of private business in the labour markets, driving up wage claims by offering appealing replacement incomes for not working. The German economy is gradually being squeezed to death. It is caught between the high-wage competition of the domestic welfare state and the low-wage competition on world markets. That is the true explanation of the German misery.

A special problem in this respect is social assistance, because it puts a wage floor in the wage scale that pushes all wage rates from the bottom up, the more so the lower the skill level. In the thirty years from 1970 to 2000, social assistance increased by 450 percent, whereas wages of industry workers, which already rose unusually fast in an international comparison, increased by 350 percent. Because of the low-wage competition in our markets, the wage scale should have opened up on the low end in order to avoid unemployment, but instead social assistance compressed the scale further.

This is why unemployment is concentrated among the unskilled workers. 40 percent of the registered unemployed have no completed occupational training and no higher education, and in a wider sense even far more than half of the unemployed must be considered unskilled. If the labour cost of the unskilled is artificially raised by wage competition of the state, then unemployment is inevitable.

Some claim that unemployment among the unskilled is almost a natural law, as a consequence of technological progress that has destroyed simple jobs. This thesis is wrong, because it fails to consider that firms' decisions to rationalise depend on the wage level. Robots are only used if they are cheaper than human labour.

Look at the plants of VW here in Wolfsburg and in Mlada Boleslav, the former Jungbunzlau, in the Czech Republic. Here you see nothing but robots, there nothing but people. No wonder, Czechs are cheaper than robots and Germans are more expensive. In Wolfsburg a robot already pays if it can substitute for two workers. In Mlada Boleslav it only pays if it can replace ten workers.

If the thesis of exogenous technological progress were correct, unemployment among the unskilled would have risen as much in the other industrialised countries as in Germany. But that is not the case. In the OECD statistics we are, and this is little known, world champions in unemployment among the unskilled.

Unemployment among the unskilled is the true disease of our country, and it is quite certainly caused by the wage replacement system of the welfare state.

Migration

The rigidity of wages caused by the wage replacement system also resulted in the failure to meaningfully integrate into the economy the 4.6 million foreign workers who have immigrated to Germany during the past thirty years. Although most foreigners did find jobs, most of these jobs were ones that Germans vacated for them. Instead of meeting the low-wage competition of the immigrants, the unskilled domestic workers let themselves be pushed into the easy chair made available for them by the welfare state. In an indirect way, there was immigration into unemployment, a totally nonsensical development.

Welfare to work

This must change. We need the welfare state but it should not make the benefits that it provides for the less productive members of society conditional on their not working, since this prevents the wage flexibility necessary for the creation of jobs. The motto of the welfare state of the future must be "help for self-help". If someone has such a low productivity that he cannot earn enough on his own, he must receive support from the state, but the support must be contingent on some work. The point at which one receives maximum state support must no longer be at zero income, like today, but should be shifted to a certain minimum income that one must earn oneself. It could be approximately at an income that can be earned in a half-time job in the low-wage sector.

In this case the state would not act as a competitor of private enterprise but as its partner. Wages can fall, but the income of the poor remains secured. More jobs will be created by businesses.

This is the philosophy behind the welfare-to-work model developed by the Ifo Institute and accepted by a majority in the Bundesrat under the name of "Subsistence Assurance Act". In the longer term we expect at least two million additional jobs if this model is implemented and in any case a substantial increase in the income of past recipients of social assistance.

Without welfare to work, the necessary wage flexibility cannot be provided in a socially acceptable way, and without wage flexibility the chances are small that the competition of the new EU countries can be met. In particular, I see no chances for east Germany, whose competitiveness is even worse than that of west Germany. It faces being squeezed between the low-wage countries Poland and the Czech Republic, on the one hand, and the highly productive businesses of west Germany, on the other.

Agenda 2010

Agenda 2010 of the Federal Government is basically a move in the right direction. The abolition of unemployment assistance is the prerequisite for a reduction of the entitlement wages of the unemployed and the creation of additional jobs at lower wages.

The problem, however, is the existing regulation that low wages may not fall below the comparable local level. This rule was included in the law by the left wing of the Social Democrats at the last minute. Even in the past there were not enough jobs at comparable local wages. And this will not change in the future. Employment will only rise if wages fall.

Politicians refuse to believe this. But there is no getting around this simple truth.

The federal government has put its faith in the change of the suitability rules for the continued receipt of wage replacement income. Unemployment compensation and social assistance will be cut if a lower wage level is not accepted. The manager becomes an administrative clerk and the administrative clerk becomes a mail clerk. All unemployed are forcibly downgraded, but because wages are fixed at all levels of the hierarchy, there will be no additional jobs anywhere. Instead, there will be a further displacement of the unskilled. Unemployment will be concentrated even more on the lower steps of the ladder than is now the case. I hope that this nonsense will be stopped by the Bundesrat. The Bundesrat model is clearly the better alternative. We are lucky to have a federal system that can correct the government’s proposals.

Delayed integration into the welfare system

The reconstruction of the welfare state from a rival to a partner of private enterprise is by far the most important reform needed for German workers to become competitive again in the medium term, but the list of necessary reforms does not end here.

In order to prevent excessive immigration from Eastern Europe following Eastern enlargement of the EU, immigrants should only be integrated into the welfare system gradually over a certain period of time. Unfortunately, the new EU constitution with its proposed social union for Europe goes exactly in the opposite direction by strengthening immigrants' rights to receive welfare benefits.

In Germany, social assistance for a family of four is three times higher than the Polish average wage. Large-scale welfare migration would be inevitable if the constitution were passed in its present form.

Collective bargaining laws

To increase wage flexibility we urgently need a reform of the industry-wide collective bargaining agreements, giving firms the right to agree wages below the negotiated level. If a firm is near bankruptcy, its employees must be allowed to agree a wage reduction below the negotiated wage level even if the union and the employer association object to such a wage reduction. True competition demands the chance to underbid the competitors organised in these organisations. Recall the case of Philipp Holzmann, where the employer association and the unions prevented the workforce from rescuing their firm by accepting lower wages, or the case of Viessmann, where the unions brought suit against the workers' council for agreeing to an unpaid increase in working time in order to keep the construction of a new gas thermal plant in Germany.

In view of the dramatic acceleration of bankruptcies in Germany, this is an urgently necessary task for the prevention of even bigger losses.

Germany's labour markets have been ossified by the monopoly power of the unions and the opposing power of the employer associations. The labour markets will not function unless we reduce the power of the labour and employer associations.

Working time

Furthermore, we all must work longer. On the international scale of annual working hours Germany ranks lowest. We live in a leisure paradise. If we worked ten percent more, i.e. 42 instead of 38 hours, labour costs would fall by about ten percent. By doing this we could offset the disadvantage in hourly wage costs vis-à-vis our neighbour, the Netherlands, that has arisen in the past two decades. With the 1982 Wassenaar Agreement, the Netherlands has shown how an employment miracle can be achieved by wage moderation. The simplest way of converging again with Dutch hourly wages is to work longer for the same wage.

Taxes

We also need tax reform on the heels of the latest tax reform. An earlier implementation of the next stage of tax reform cannot be the last word. The intensive international competition for mobile capital forces us to lower the tax on income from capital, similar to the Scandinavian dual income tax. The German Council of Economic Experts has just come out in favour of dual taxation, also as I did independently in my recent book . Dual taxation means that income from capital is taken out of general taxation and is taxed at lower rates in order to attract international investment. At the same time, a graduated scale of taxes should be introduced for the other incomes, with a maximum tax rate of 35 percent to reduce the underground economy and strengthen work incentives.

Pensions

The most important reform in the long run consists of a fundamental redesign of the old-age pension system. As mentioned above, the old system will not be able to secure pensions sufficiently above the level of social assistance. That is why other sources must be found.

The Riester pension savings scheme recently introduced by the government is the correct way in principle. What Germans no longer invest in human capital for the lack of children they must invest in real capital. Nothing comes from nothing, to be sure. A society that neither invests in human capital nor in real capital must go hungry in old age. This is a fact, despite social insurance.

The only problem is that the Riester scheme put families in an impossible position because the sum of burdens is too high. With their current social security contributions families today finance the pensions of their parents. With their expenditures for the education of their children they safeguard future pensions for everyone. And with their expenditures for the Riester scheme they are to safeguard their own pensions, too. One of these three burdens is too much.

That is why I propose introducing, as a supplement to the shrinking old-age pension, a new child-based pension for parents that increases in the course of time in such a way that it permanently secures today's pension level for parents despite the shrinking statutory pensions. It must be financed by all wage and salary earners, for everyone has parents.

In contrast, the Riester scheme should be a compulsory pension for the childless. Everyone must make sure that he supplements his statutory pension. Families do so by raising children and thus forming human capital. This entitles them to a child-based pension in the future. And the childless do so by forming real capital via the Riester scheme, which they are certainly able to do. Especially those who have no child-raising costs because they don't want or can't have children have funds to invest in a Riester scheme.

Because the compulsory Riester savings scheme may be successively waived as children are born, this system will make sure that families have the needed funds and will also improve the economic incentives for having children. In this way pensions will be safeguarded and growth will return to Germany.

Then Germany will not only have a past but also a future.

Summary

Allow me to sum up my main points. The German economy may remain competitive as it mutates to a bazaar economy that has the goods it exports to the world produced in its Eastern European hinterland. But German jobs will lose their competitiveness. About 4.5 million Germans already are no longer competitive.

Unemployment is concentrated among the unskilled to an extent that is not observable in any other industrialised country. This is the German disease. To heal the disease, the welfare state must develop from a rival to a partner of private enterprise. Wage supplements instead of wage replacements is the motto for the new welfare state. In this way wage flexibility is created that is necessary to prevent unemployment.

The monopoly power of the unions and the employer associations must be curtailed. Firms must have the right to prevent bankruptcy by lowering wages below the negotiated levels and to do so even if the competitors organised in the various associations do not approve.

Pension insurance must be increased because it no longer guarantees sufficiently high pensions in light of the growing number of old people. The childless must be obliged to invest in Riester schemes, and parents must receive a child-based pension that compensates for the expected decline in the level of statutory pensions. The natural incentives to have children that were weakened by the old pension system will then be strengthened again.

That, ladies and gentlemen, is my analysis and my programme. It is the programme of an economist who does not belong to any party and who is not running for office but who has tried to present to an attentive audience his thoughts and assessments of the economic state of his country.

Thank you for your attention.