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BOOK REVIEWS

What Happens in Berlin Doesn't Stay in Berlin: If Germany Doesn't Excel, Neither Will the European Union

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Deutschlands fette Jahre sind vorbei: Wie es dazu kam und wie wir ein neues Wirtschaftswunder schaffen können (Germany's prosperous years are over: How it came about and how we can create a new economic miracle)
Gunther Schnabl
FinanzBuch, 2024; xx + 320 pp.

Professor Schnabl's book presents us with an extremely interesting dilemma: What happened to the economic engine of the European Union, namely Germany? This question is of immense importance not only for those involved in the study of economics, but also for the entire European population, considering that Germany is today the world's third-largest economy and the main economic power of the European Union. Professor Schnabl provides a comprehensive and exhaustive answer.

Professor Schnabl begins his explanation with a historical overview that starts in a period which, at least initially, was a disastrous one for Germany: the postwar years. Not only does this period show us a Germany divided between East and West, but in the case of West Germany, we are talking about a period focused on the need to rebuild the German economy and regain international confidence. The Adenauer period (1949–63), which laid the foundations for German reconstruction, was not only followed by the period when Ludwig Erhard was chancellor (1963–66), but also strongly influenced by the latter, as Erhard held the position of minister of economics, one of the most important ministries, during Adenauer's government. Professor Schnabl therefore holds Ludwig Erhard to be the main architect of German prosperity, considering his time at the helm of the Ministry of Economics to be one of economic development based on reduced state interventionism and profound institutional reforms. The central elements during the Erhard period that Professor Schnabl highlights are thus liberalization and monetary reform, protection of private property, competitive markets, and a central bank oriented toward stability. We refer to the Erhard period (and less to the

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Adenauer period) because the economic reforms were based on his ideas. On the other hand, we recall that Konrad Adenauer had the difficult task of restoring postwar Germany's international prestige, which he succeeded in doing by connecting Germany to international structures and by founding the European Economic Community in 1957 (together with other European leaders such as Robert Schuman, Jean Monnet, Paul-Henri Spaak, Johan Beyen, Altiero Spinelli, and Joseph Bech).

We must also bear in mind that developments in the Western world led to the European Economic Community expanding its powers and becoming, in 1992, the European Union, through the Maastricht treaty. However, the economic system inherited from the Erhard era has suffered in recent decades. To elucidate how Erhard's legacy has been diluted over the years, Professor Schnabl talks about the transition from the stable and independent policy of the German Bundesbank to a policy based on the prolonged crisis management of the European Central Bank—a policy centered on the maintenance of low interest rates, the purchase of bonds during the euro crisis, and pandemic emergency programs. Furthermore, in chapter 3, "Der Euro wird doch zum Teuro" (The euro as teuro),[1] Professor Schnabl states that although consumer price inflation was under control, inflation manifested itself in the asset markets. Another issue noted by the German professor lies in the surplus of German exports, which was made possible through weak domestic consumption. Here we can see the first signs of Germany's decline: an economy that, although it grew in the post-Erhard years, had to deal with such problems, which, although not visible at first glance, conceal effects that compound in the long term.

The topic of China's economic advance, also addressed by Professor Schnabl, is highly relevant today. There is clear evidence that the German economy benefited from the liberalization of the Chinese market in the 1990s, but various negative aspects are also highlighted, such as increased dependence on a single market, geopolitical risks, and the various external shocks that can hamper such a trade relationship. Germany is thus placed in the uncomfortable position of expressing its desire for increased trade relations with China at a time when the United States has adopted an extremely hostile attitude toward Xi Jinping's policies.

Another highlight of Professor Schnabl's work lies in his emphasis on the expansion of the German welfare state. Even though economic theory tells us that healthy economic growth should be based on capital formation and productivity growth, Professor Schnabl argues that the German state has increased social transfers without concurrently increasing investment. Thus, one of the main problems of the contemporary German state lies precisely

1 "Teuro" is a play on words in German using the word *teuer* (expensive) and referring to the costs associated with adopting the euro.

in this disproportion between private investment and increased government spending. To this, we can add another compelling area of the German economy, namely the emphasis on green policies. Recalling that Germany is one of the countries where the Green Party (Die Grünen) has had an important role since the 1990s, we can also note the words of Professor Schnabl, who states that, from an efficiency and cost perspective, a green transition managed entirely by state entities is less efficient than one carried out through the market.

Professor Schnabl also talks about a decline in Germany's attractiveness due to excessive bureaucracy, uniform European regulation, demographic decline, and a shortage of skilled workers. Added to this is the European Union's tendency toward increasing centralization, which reduces subsidiarity and causes a decline in institutional competition. What Professor Schnabl suggests instead is a decentralized union with increased regional responsibilities, capable of bringing innovation and prosperity. Professor Schnabl therefore comes up with an extremely attractive but also challenging idea: a European Union that is different from the one inherited by the Treaty of Lisbon; a union in which decentralization plays a central role (paradoxically speaking). Professor Schnabl's suggestion is fascinating not only because its economic effects could revive the European economy, but also because it constitutes an alternative to the growing demands for federalization and bureaucratization by various European officials. Thus, we believe that the path suggested by Professor Schnabl, although less attractive to European legislators, has much greater potential than that of bureaucratization.

In chapter 10, Professor Schnabl discusses an important topic in the political and economic history of Germany: the differences between East and West Germany. The author focuses on the former, noting that East Germans inherited the structural disadvantages of a planned economy and uncompetitive infrastructure. Although the process of convergence began after reunification, it also had certain negative effects, considering that export-led development favored western Germany and most economic activity took place in the western part. Professor Schnabl's remarks are extremely helpful in understanding the political fragmentation in contemporary Germany: In western regions such as North Rhine-Westphalia and Hesse, the traditional parties (the Sozialdemokratische Partei Deutschlands, or SPD, and the Christlich Demokratische Union Deutschlands, or CDU) enjoy consistent and significant success, while in eastern regions, particularly Saxony and Thuringia, nonconformist parties such as Die Linke (The Left) and Alternative für Deutschland (AfD), which advocate radical reforms of the German state, are gaining ground and often receive more votes than the SPD and the CDU. Thus, political balance is achieved in the Bundestag elections, which rebalance the differences between eastern and western Germany. Moreover, after the publication of Professor Schnabl's book, the German election on February 23, 2025, saw Friedrich Merz and the CDU triumph, demonstrating how the

issues highlighted by Professor Schnabl (high inflation, rising interest rates, budgetary pressures, and declining economic growth) caused Olaf Scholz to lose. We also note two fundamental aspects that show us Germany's decline: The AfD doubled its share of the vote to 20 percent in the last election, while Die Linke reached nearly 9 percent. We also observe that the big loser besides Olaf Scholz was the liberal Christian Lindner, who ended up excluded from the Bundestag with the Freie Demokratische Partei (FDP), highlighting the quasi-nonexistent impact they had on the Scholz government.

The concluding chapter of the book, chapter 12, is titled with an ambitious question posed by Professor Schnabl: "Wo ist der neue Ludwig Erhard?" (Where is the new Ludwig Erhard?). He advocates for a series of reforms that would bring back Germany's prosperous years. Among these, Professor Schnabl suggests restoring monetary stability, increasing work incentives, reforming pensions, limiting state expansion, reducing bureaucracy, and encouraging private investment. Professor Schnabl also urges the German state to return to the basic principles of its own development: competition, fiscal discipline, a stable currency, and institutional constraints.

Considering the above-mentioned principles, we will affirm that Professor Schnabl's book is important for a number of reasons. Firstly, the author clearly identifies the reasons why Germany, the driving force behind the European Union, has fallen on hard times, a far cry from the days when Ludwig Erhard was minister of economics and later chancellor. Secondly, although this decline could not be avoided due to the political and economic trends of recent decades (to which we can add various crises), Professor Schnabl does not lose hope for a future in which Germany will resume its path to prosperity; he suggests various recommendations for the authorities in Berlin to follow. What Professor Schnabl proposes in this sense is not utopian but a potential recipe for success—a recipe he did not invent and one that has already been tested during the years of reconstruction of the German economy. Although humanity has undergone spectacular developments and the global economic and political framework is completely different from that of the 1950s and 1960s, we would agree with Professor Schnabl that the German economy still has the potential to experience "fette Jahre" (prosperous years) again. The dilemma lies precisely in identifying a new Ludwig Erhard. If the Scholz government's results were assessed by last year's elections, we can say that one year is not enough to assess the results of the Merz government, as the challenges it faces have increased. The energy crisis, which is putting German households at great risk, has not been resolved; the conflict in Ukraine is ongoing. Moreover, the latest events in the Middle East pose an even greater challenge to Germany's definitive return to prosperity and economic growth, but as we previously said, this path is not an impossible one.

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