Germany's economy under pressure

And still no major policy reforms

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Germany has been trapped in economic stagnation for many years. There can be no doubt about the facts. The problems of Germany as a business location are also well known. Yet the courage to push through reforms is lacking. This is probably also due to a failure of recognition. Small individual measures and debt-financed government spending programs will not be enough to generate sustainable growth again.

Germany's growth weakness has now persisted for six years, and it can be felt everywhere – loss of prosperity in per capita income, large deficits and rising contribution rates in the social security systems, and growing unemployment. Millions of people are being supported by unemployment benefits and basic income, even though the labour market is looking for workers. There should be no doubt about the seriousness of the situation.

Lack of understanding for the causes of economic weakness

And when it comes to the causes, there should also be clarity. The economic problems are largely self-inflicted. Germany lags behind all comparable economies. Global developments such as Covid, the 2022 energy price shock, or the current tariff war have affected all countries to a greater or lesser extent. Also, Germany's economic problems are not solely due to years of insufficient public investment, which the government now seeks to boost with new debt packages. As countless location comparisons have shown, high costs (energy, wages, payroll-related costs), too few skilled workers, some of the highest taxes, and stifling bureaucracy reduce Germany's competitiveness and make it increasingly unattractive as a business location.

Members of the current government often emphasize these points as well, but reform efforts remain timid. Individual measures such as depreciation allowances, subsidies for e-mobility, and an industrial electricity price will hardly suffice to trigger a clear growth spurt. Despite high-profile investment summits, there is so far no sign in the indicators that companies are investing significantly more and creating jobs.

Apparently, the government does not see greater urgency for action. Difficult measures are avoided. One gets the impression that the problem is not primarily implementation, but rather recognition of why so little is happening in Germany.

Outrage over justified demands from the Minister of Economic Affairs

A telling example were the partly outraged reactions, even within the governing coalition, to statements by the Minister of Economic Affairs about working hours in Germany. She had pointed out Ger-

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many's very low average working hours and demanded that we "work more and longer." What is wrong with this statement? Nothing. Higher working volumes are necessary to generate economic growth and to improve the precarious financial situation of social security systems and public finances.

There are various ways to achieve this – reducing the part-time rate, especially among women, increasing weekly working hours, delaying retirement, or activating those not currently in work, such as welfare or basic income recipients.

Well-meaning critics argue that the smarter path to growth would be to increase average labor productivity without raising working hours. A fine idea! But unfortunately, it contradicts recent reality – we have not been able to raise average productivity. Since 2022, it has not increased at all in Germany and has even slightly declined. To generate more productivity again, reforms are needed to improve conditions for investment, innovation, and technological progress in Germany.

In the area of pensions, recent measures actually run counter to the goal of more employment and investment. Improvements like the so-called "pension at 63" have been maintained, and new expansions such as "Mothers' Pension 3" and the 48% minimum pension level have been introduced. The latter suspends earlier reforms like the sustainability factor, which distributed demographic burdens between retirees and the shrinking working population. To follow such pension hikes with a debate about a new "boomer solidarity tax" can only be described as absurd political theater.

Measures to raise pension levels have consequences: they increase the federal subsidy to the pay as you go pension system – which is already one-third of the federal budget – and raise contribution rates for employees and employers. The state is burdened with additional consumption spending, workers have less take-home pay, and companies' demand for labor declines. This is incompatible with a priority on public investment and more employment.

Deindustrialization politically tolerated and reinforced

The disadvantageous conditions in terms of costs, taxes, and bureaucracy weigh especially heavily on industry. Even in 2025, deindustrialization in Germany has continued. Industrial production in June 2025 was no less than 18% below the corresponding level of 2018. The decline is far greater than in other countries. And it is not offset by the fact that some industries sell more services alongside their goods.

Numerous factors contribute to this development, but energy prices and thus energy policy decisions are of particular importance. With the shutdown of nuclear power and additional coal plants, businesses and households were promised cheap electricity from wind and solar. In reality, however, electricity prices in Germany are among the highest in the developed world – and would be even higher if the state had not already shifted considerable costs from consumers to taxpayers (e.g., EEG levy, grid charges).

There is no prospect of falling electricity prices either, since the system costs of the energy transition are enormous and should have been clear from the start. These include not only building wind farms and solar panels, but also urgently needed distribution networks, adequate storage capacity, and additional gas plants as backup. The restructuring of the energy system will cost taxpayers and consumers many more billions before renewable energy can be used efficiently – instead of wind farms being shut down at times of high solar output because the system is overloaded or profits are insufficient. Germany's energy transition is anything but a shining example for other countries. Above all, high energy prices have for years been a major factor in reducing industrial capacity or shifting it abroad – with CO_2 emissions simply occurring elsewhere. From this perspective, it is ironic that the governing coalition promoted the transition to climate neutrality as a major growth catalyst. Wishful thinking, as it turns out. The energy transition has become very expensive, and as the Ministry of Economic Affairs has announced, it now requires a reality check with cost awareness and openness to technology to limit the burden.

Infrastructure programs won't work without reforms

For decades, investment priorities have been neglected in German policy making, even though they likely appeared in every coalition agreement as an aspiration. Public investment relative to GDP is about the same as 30 years ago, while social spending has risen sharply. Because investment was not prioritized, infrastructure is outdated and no longer competitive. Debt-financed infrastructure programs are supposed to change this. But they can only be justified if they truly generate additional investment and if they channel resources into infrastructure in growth-relevant areas.

It must also be cautioned against the idea that improving infrastructure alone will lead to sustainable growth. Without structural reforms, it won't work. The disadvantages of Germany as a location in terms of costs, taxes, bureaucracy, and labor supply must be reduced. For example, social reforms are on the political agenda this fall and could offer an opportunity. The very high social security contributions – now a burden on income and employment – should be reduced. At the same time, incentives and opportunities to work should be increased for those receiving transfers through unemployment insurance and basic income. The aim should be to reduce the now massive strain on public finances while also easing labor shortages. Whether this will be possible in the current coalition remains to be seen.

With market-oriented reforms, Germany has immense potential

Those in centrist parties who oppose market-oriented reforms, whether out of ignorance of economic relations or political priorities, should reconsider urgently. The pressure to act in Germany is immense to prevent further economic decline. Without growth, the welfare state will be endangered in the long run, and without rising incomes, the political extremes will continue to gain ground.

The lack of reform willingness is all the more disappointing because Germany has great economic potential. There are excellent skilled workers with lots of immense know-how in company workforces, which are often highly loyal to their firms. And Germany has a large number of globally competitive companies, often clustered together. These include small, medium-sized, and large firms, often in traditional industries. Since it is unlikely that a German equivalent of an Alphabet, Microsoft, or Nvidia will emerge, it is all the more important to improve conditions for existing company structures and thereby encourage their willingness to invest and innovate domestically.

If that happens, it is entirely possible that Germany could return to a productivity and growth trend of 2%, fundamentally improving prosperity and the situation of social security systems and public finances. To achieve such growth, what is needed above all are corporate investments and innovations in Germany. With a growing and modern capital stock, rising productivity, and additional working hours, such growth rates are no utopia. Action just needs to be taken.

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