



University of St.Gallen

Institute for Law and Economics

The German Economy

At a crossroads

CFA Society Germany

Webinar

October 29, 2025

Dr. Stefan Legge

Schedule

12:00 – 12:30: The Current Situation

- Macroeconomic Perspective
- Business Perspective

12:30 – 12:50: The Future

- Identifying Strengths
- Implementing Reforms

12:50 – 13:00: Conclusion and Q&A

I. The Current Situation

It is really bad.

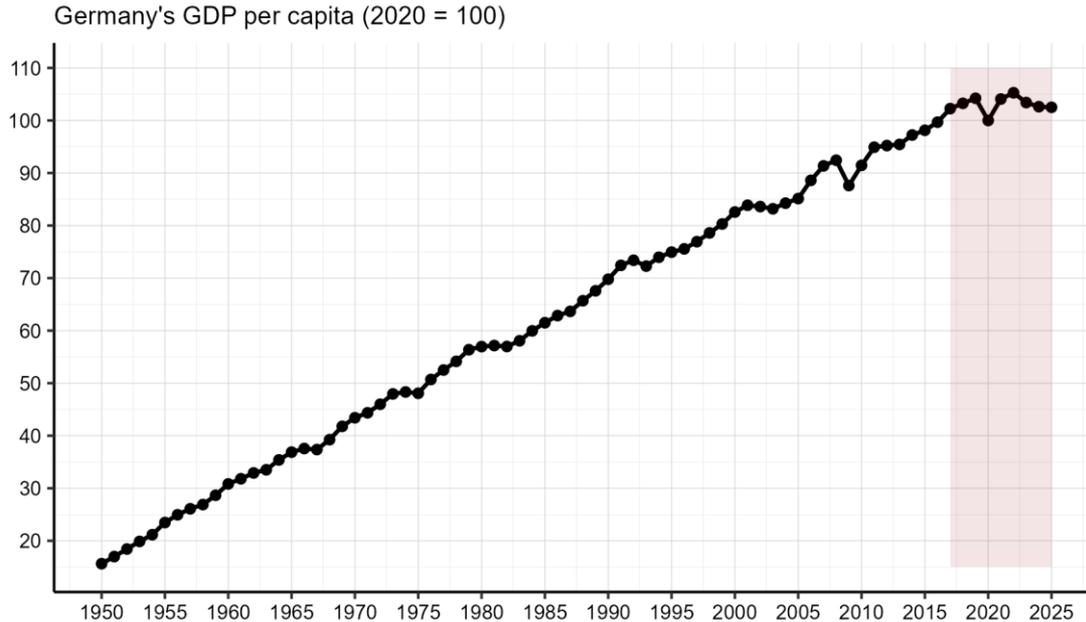
12:00 – 12:30

Macroeconomic Perspective

Germany has been stagnant for seven years.
All drivers of GDP growth signal trouble.

...but Germany experiences an unprecedented stagnation.

- GDP per capita has been stagnant since 2018:



Note: In constant prices, West-Germany in 1990 and before.
Data: Bundesbank

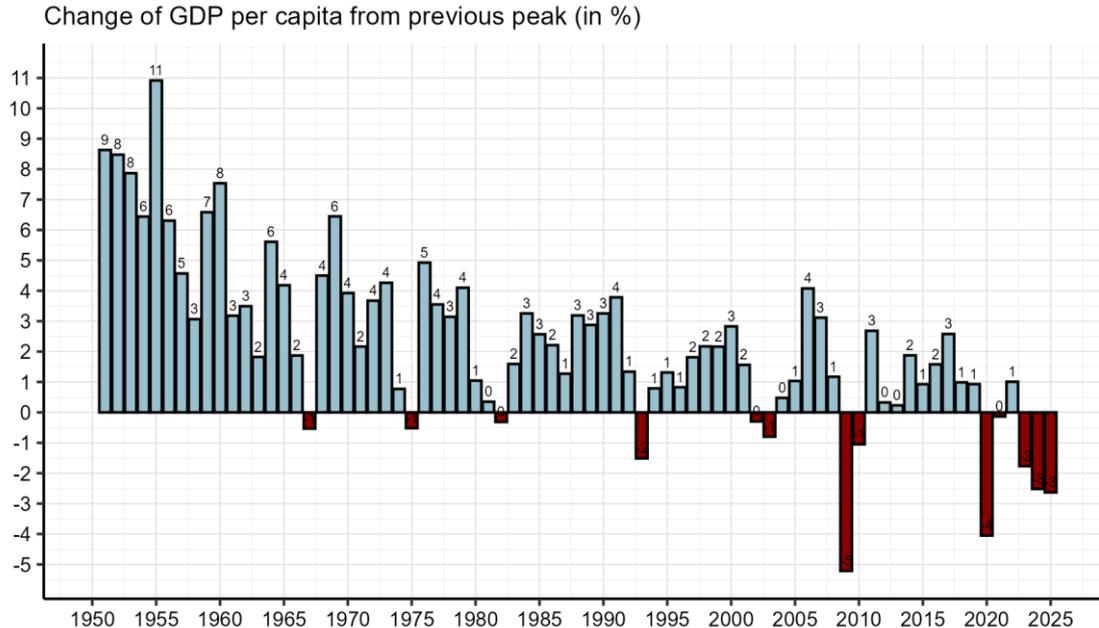
This is not a business cycle downturn.
It looks like a structural problem.

Note the difference between short- and long-term growth:
Does utilization of capacity increase or does the capacity to produce increase?

Fiscal & monetary stimulus help with *short-run* growth, not *long-term* growth.

Seven years without getting richer.

- Germany has experienced a series of bad years like never before:



Germany's GDP per capita growth rate is steadily declining.

The nation recovered from crises in the past. **Now it does not.**

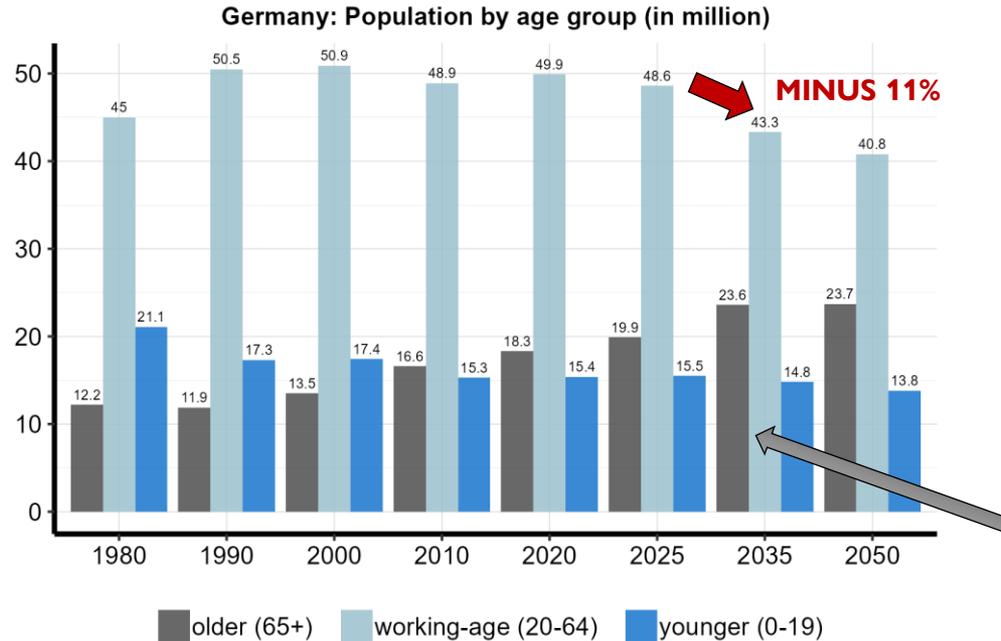
We need to analyze the three drivers of long-run GDP growth:
Labor input, capital stock, productivity.

All signal there is a structural problem.

Note: In constant prices, West-Germany in 1990 and before.
Data: Bundesbank

Not a surprise: There are huge demographic changes in Germany.

- With baby boomers retiring, roughly speaking, the nation will **lose one in ten employees within ten years:**



source: UN World Population Prospects 2024

The government does something:

Germany to allow retirees to earn €2,000 a month tax-free

Chancellor Friedrich Merz seeking to reignite economy and address challenges of a shrinking workforce

Financial Times, Oct 15, 2025

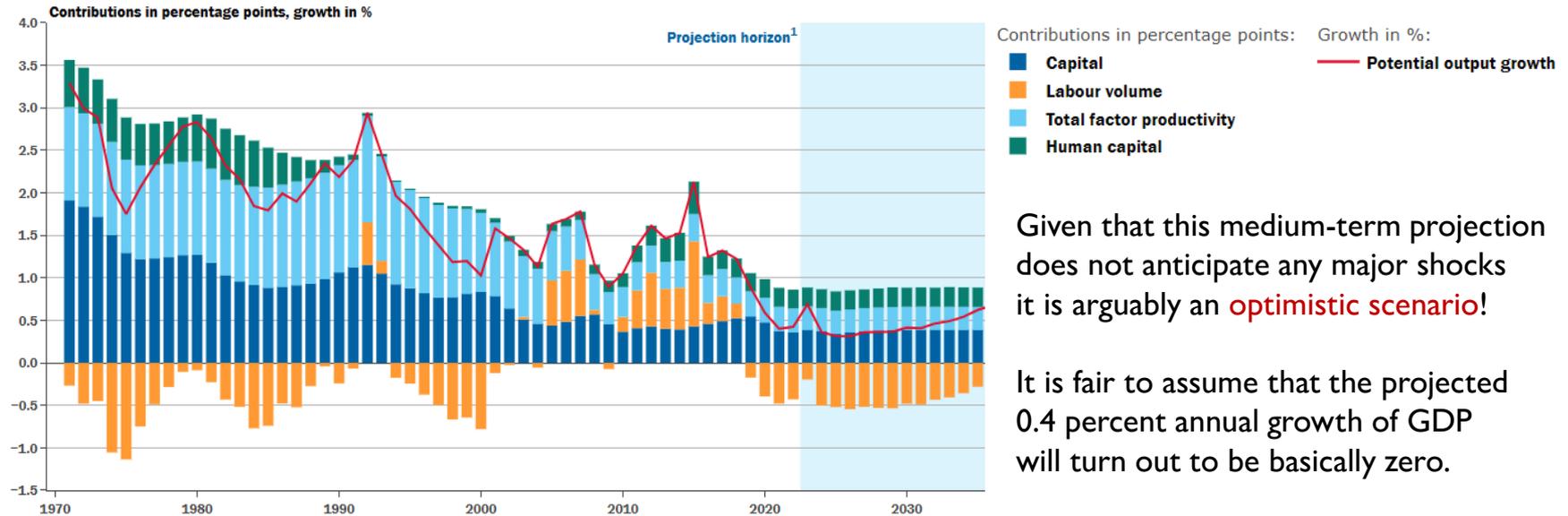
But how much effect will this have?

Note that social contributions remain unchanged.

Baby boomers will still be around and vote:
Will they confuse the voting booth with an ATM?

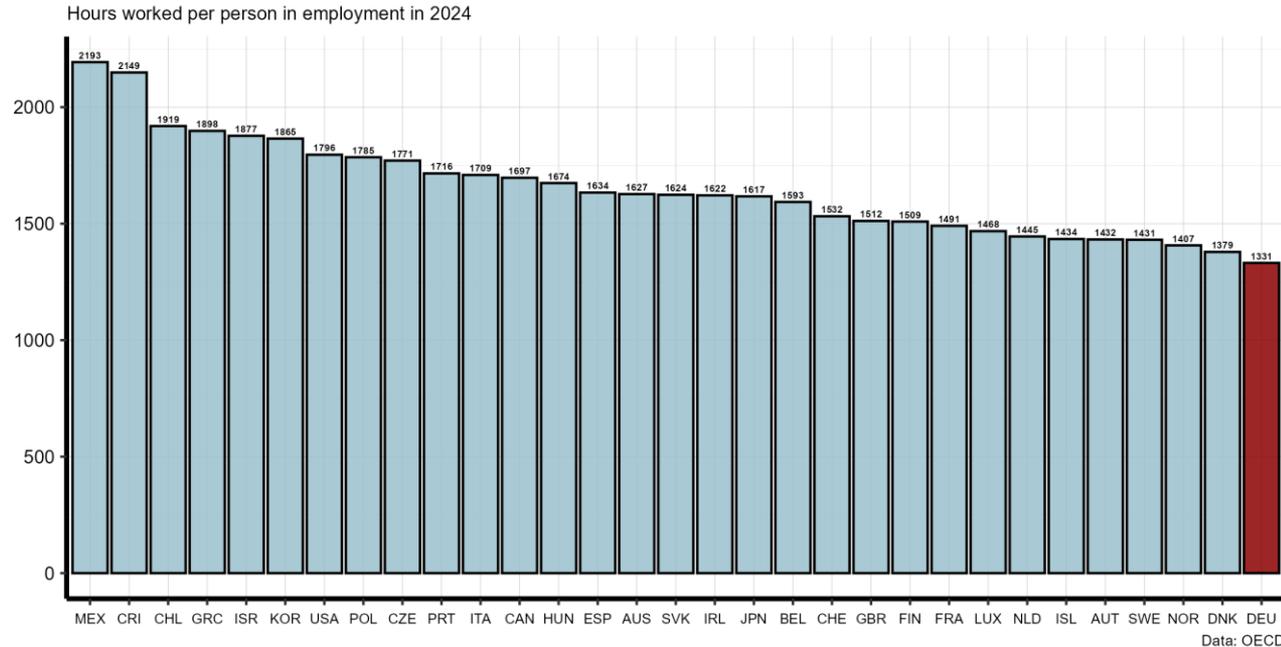
Future GDP growth rate in Germany: $-1 + 1 = 0$

- Due to Germany's demographics, there is little cause for optimism ([GCEE, Nov 2023](#)):



Germans work rarely, little.

- Across the OECD, no country clocks in fewer hours per people in employment than Germany:



German employee math:

- 10 days: paid public holiday
- 20 days: paid sick leave
- 30 days: paid vacation

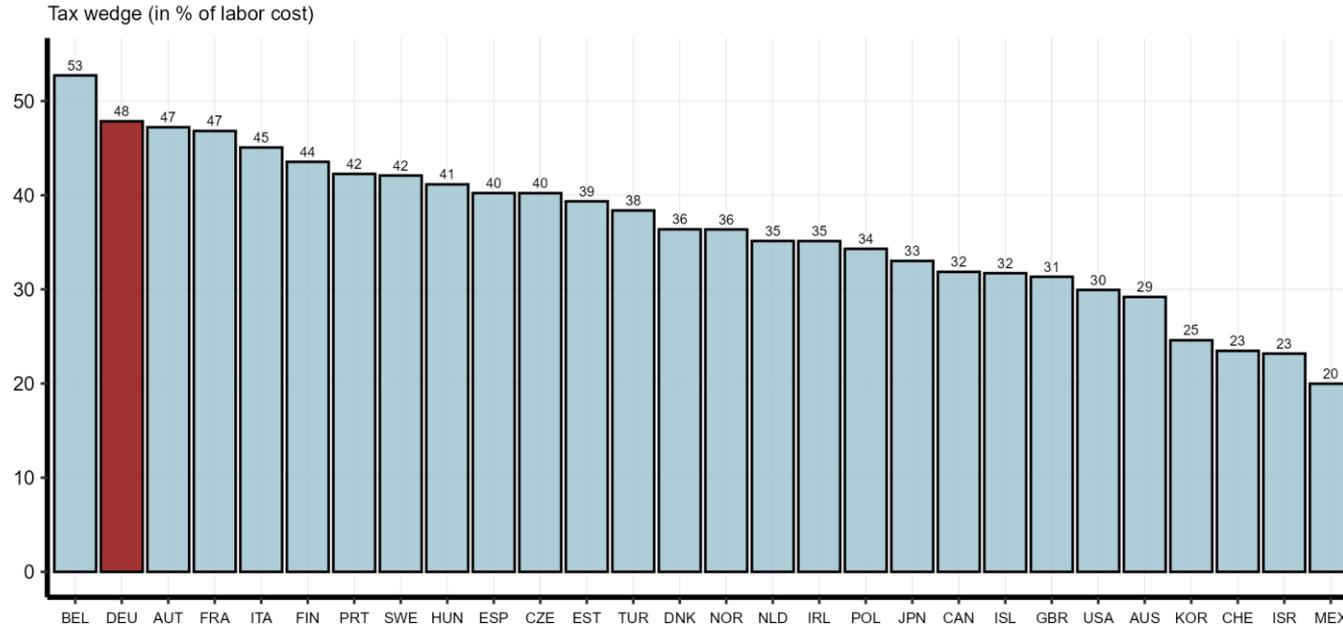
⇒ 1/4 of the year not working!

“Germany is a collective amusement park.”

– Helmut Kohl, 1993

Work is a four-letter word in Germany. 1/2

- Much of German workers' pay doesn't end up in their pockets:



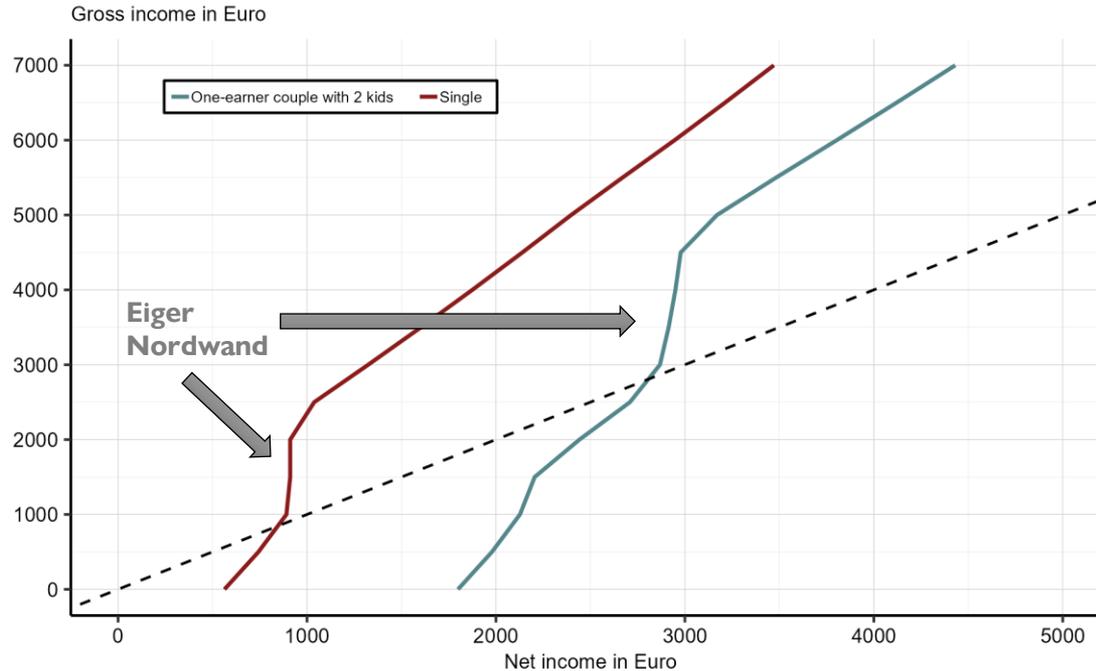
In a way, every second hour worked by a German employee yields no net income.

They work for someone else half the time.

Data: OECD

Work is a four-letter word in Germany. 2/2

- Yes, you can work more – but your disposable income will largely remain the same:



The famous “Eiger Nordwand”, (Hans-Werner Sinn, *Ist Deutschland noch zu retten*, 2006) is still present – strongly deterring (full-time) work.

Half the new jobs produce (almost) nothing.

- Almost every second new job in Germany is only to deal with bureaucracy ([IAB](#), Oct 20, 2025)!

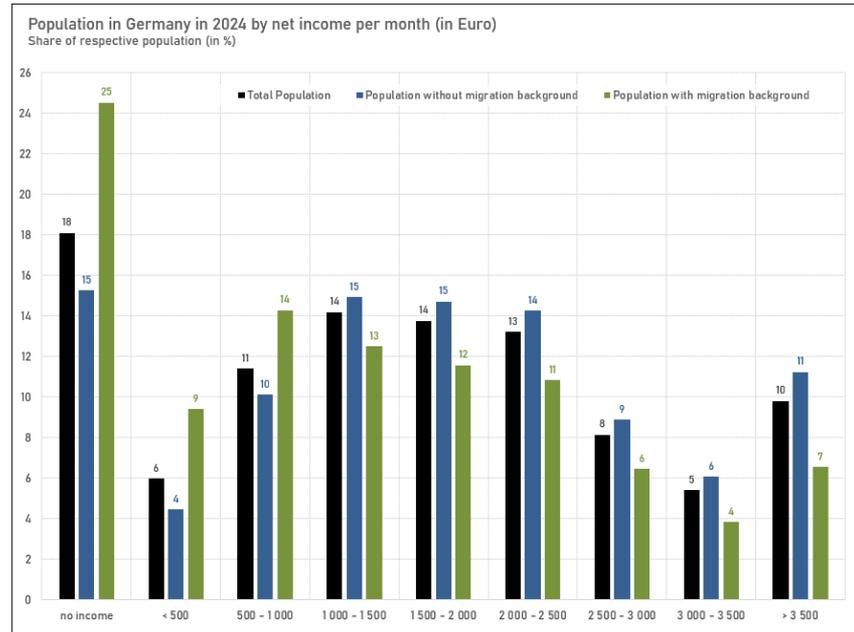
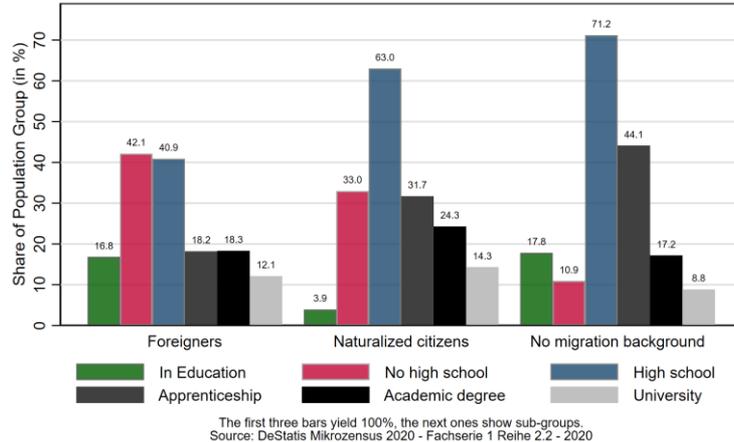
Companies have had to hire an additional 325,000 workers in the last three years to cope with the increased bureaucracy

The burden of bureaucracy on German businesses has increased significantly over the past three years, affecting companies of all sizes. Results of a 2025 IAB company survey show that increased bureaucracy is often accompanied by rising (personnel) costs, productivity losses, and barriers to investment or innovation. The General Data Protection Regulation is perceived as particularly burdensome.

- Firms report that this bureaucracy raises costs, cuts productivity, reduces investments, weakens their competitiveness, and hamstrings their innovation (in line with [Aghion et al., AER 2023](#)).
- Bureaucratic hurdles include the General Data Protection Regulation (GDPR), EU AI Act, Supply Chain Due Diligence Act, Energy Security Act, Skilled Workers Immigration Act, Sustainability Reporting under ESG Criteria, and many other laws / regulations.

Foreign talent – yes, but...

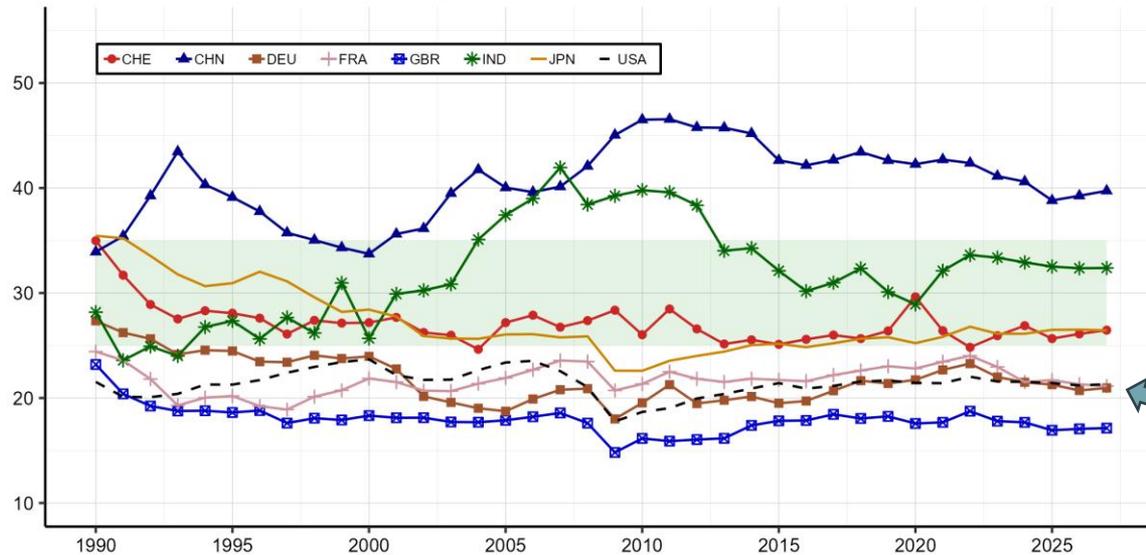
- Germany's foreign population is bi-polar in education and low in earnings according to official data. Assuming you need to make €2'500 net to be a net contributor to public finances (see Table 3-2 [here](#)), roughly 77% (or 87% those with migration background) are net recipients of government money in one form or another.



Investment has been too low for decades in Germany.

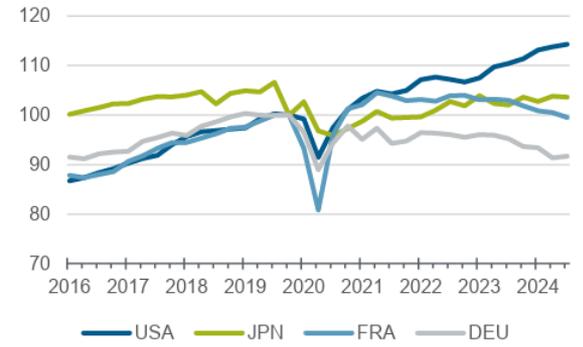
- Even in the coming years, the IMF forecasts no return to the 25-35 percent sweet spot:

Total Investment (in % of GDP)



Data source: IMF WEO October 2025

Private sector investment (Index: Q4 2019 = 100)

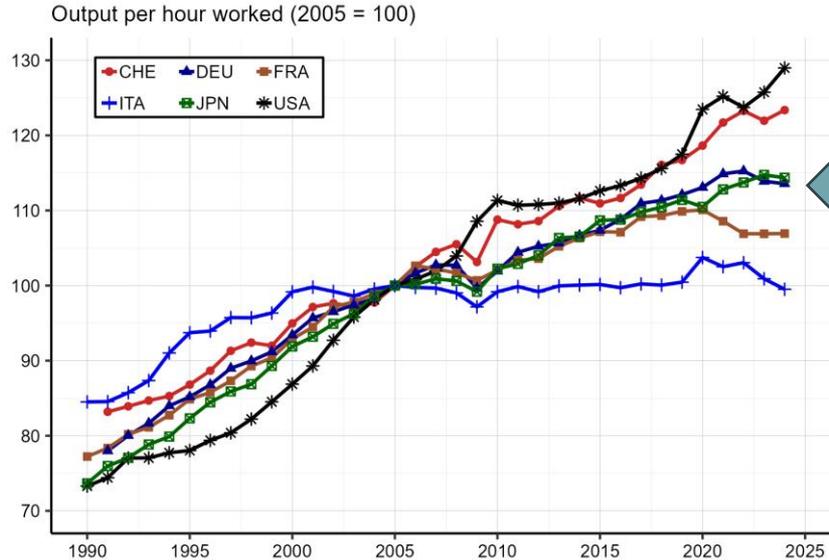


KfW, No. 485, 2025

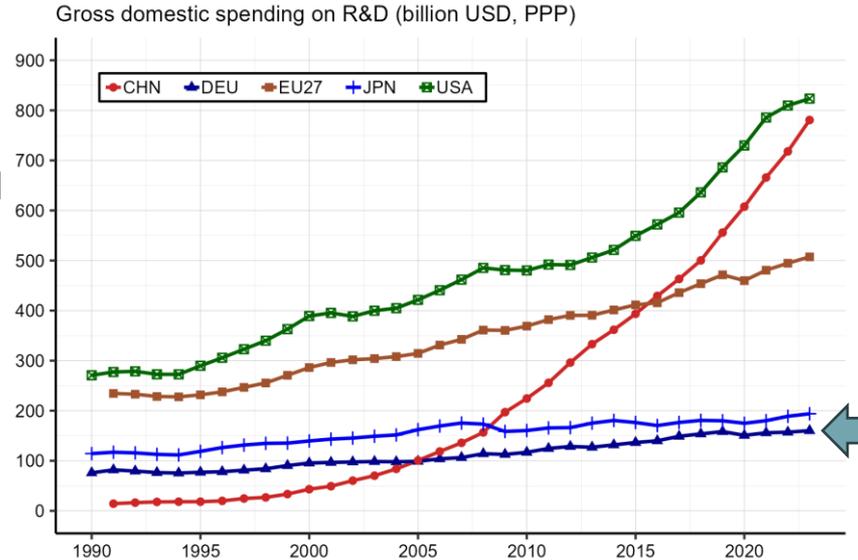
Years of underinvestment now show impact.
Look at the Carola bridge in Dresden.

Productivity growth and R&D spending disappoint in Germany.

- Germany no longer keeps up with the United States or China:



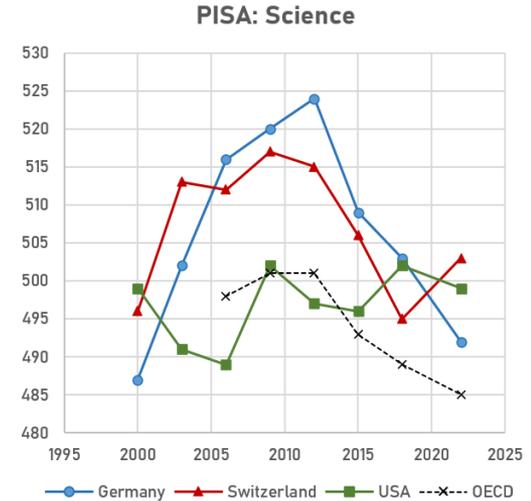
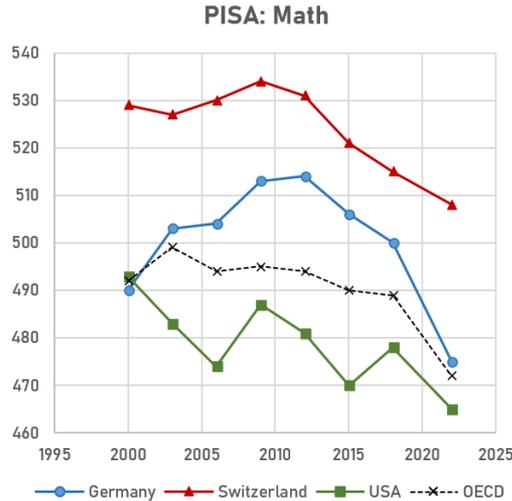
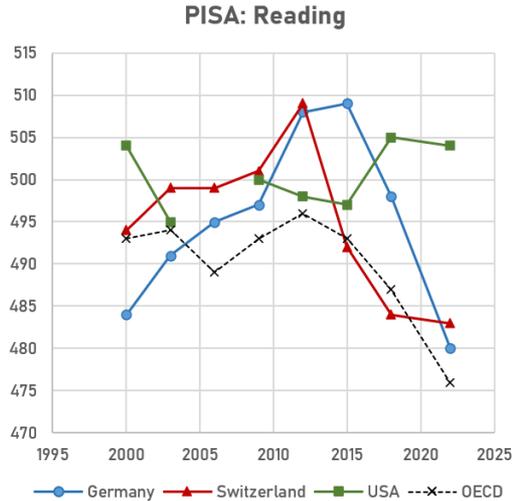
Data: OECD



Data: OECD

Educational performance is worsening a lot.

- The latest rounds of PISA tests saw German students' performance in freefall:



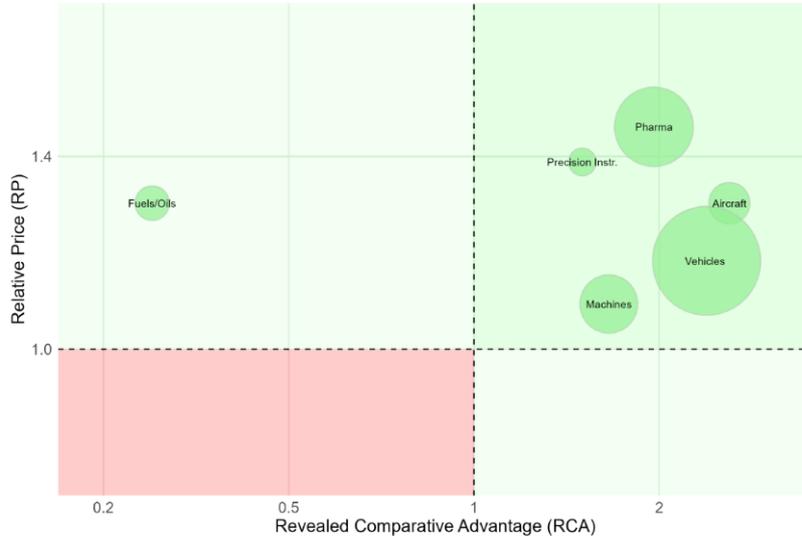
- According to the 2025 [IQB report](#), first-generation migrants in Germany score about 400 on reading & math, roughly ranking 60th globally – on par with Mexico or Bulgaria. They make up a large fraction of pupils today.

Business Perspective

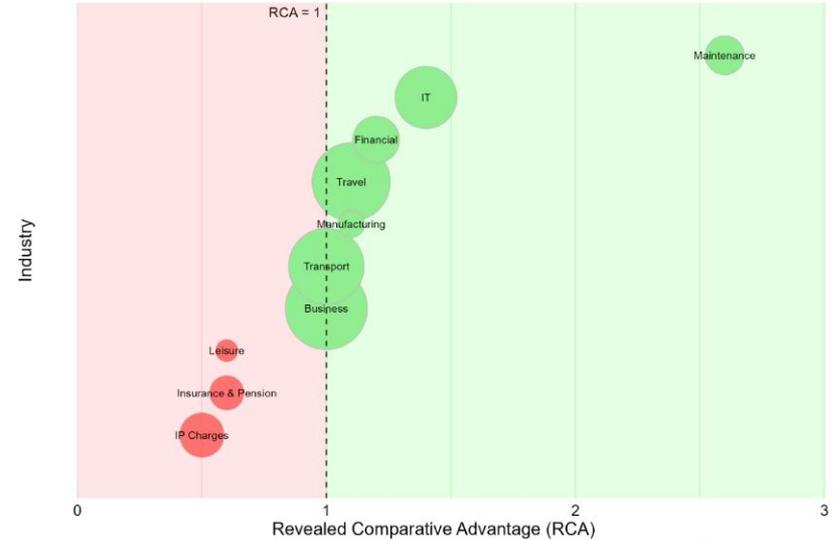
Germany's industry has declined for years.
The all-important car industry, too.

The business perspective: What's Germany good at?

- Exports tell us a lot about a nation's strengths. For Germany, we find that cars are key:



The bubble size indicates the export volume of the respective industry. Includes the top 20 four-digit industry codes aggregated to a two-digit level.



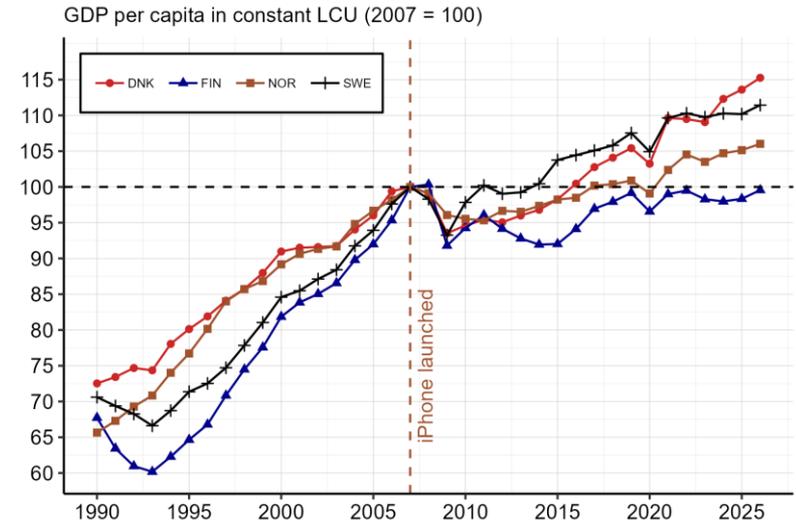
Bubble sizes indicate export volume. Industries are sorted by RCA.

Legge & Rupp (2025) "[The Business Model of Nations](#)"

Germany's all-important car industry is in trouble.

- If cars are the heart of the German economy, is there a risk of a heart attack?
Or, put differently, does Germany face a **Nokia moment** like Finland in 2007?

Rank	Company	Market Cap	PE ratio
1	Tesla	\$1'430 bn	257.0
2	Toyota	\$250 bn	9.0
3	Xiaomi	\$163 bn	31.5
4	BYD	\$132 bn	12.8
5	Ferrari	\$68 bn	37
6	Mercedes-Benz	\$59 bn	7.4
7	Maruti Suzuki India	\$58 bn	35.1
8	BMW	\$56 bn	8.5
9	General Motors	\$54 bn	8.7
10	Volkswagen	\$53 bn	5.4

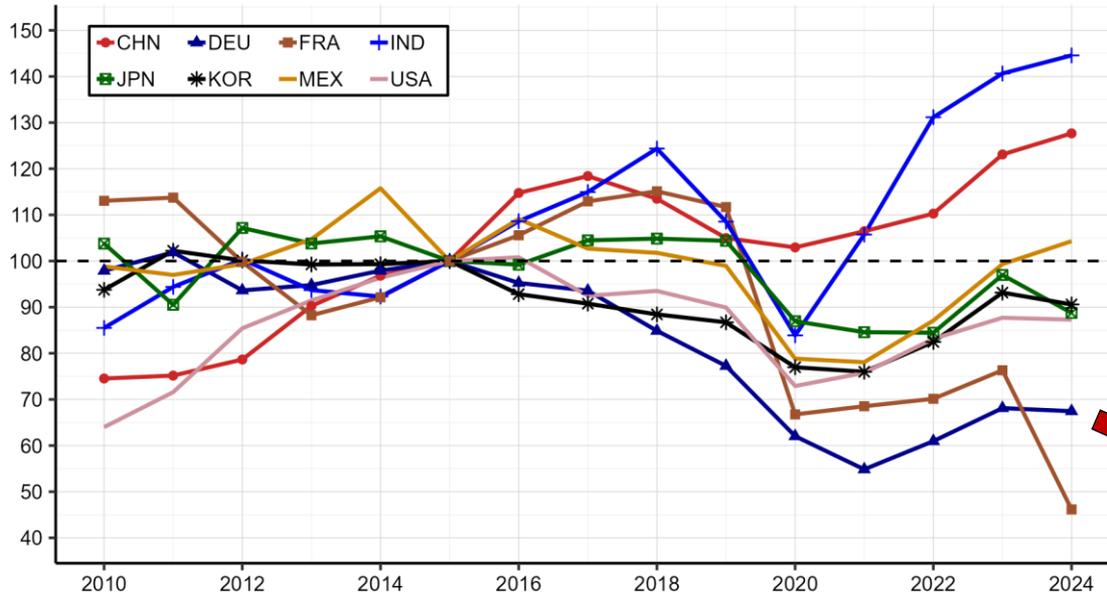


LCU = local currency units. Data: IMF WEO October 2025

Car production: China and India rise, Europe declines.

- China now accounts for 1/3 of total production, Germany only 4.4% – down from 6.5% a decade ago ([OICA](#)):

Motor Vehicle Production (2015 = 100)

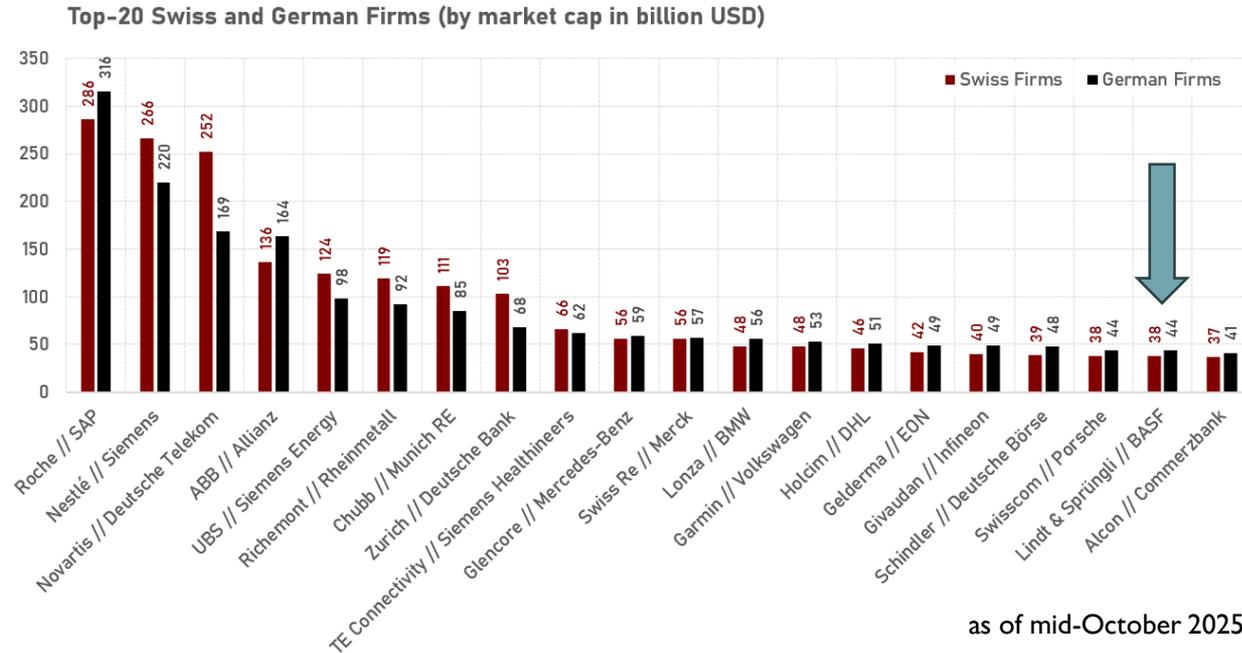


Minus 31% since 2015

Note: Nations shown account for 75% of global production in 2024.
Data: OICA

Germany's listed companies: cigars butts?

- When looking at the DAX, do we see a corporate museum?
BASF with 112k employees is worth little more than a Swiss chocolate maker with 15k employees!



German firms lack profitability. The total economic profit, including non-listed companies, is just 12% of the US level and 154% of Swiss firms. [\(Crux of Capitalism, insight #3\)](#)

as of mid-October 2025

Germany's industrial production is falling.

- The latest news from Wiesbaden is shockingly bad ([Financial Times](#), Oct 8, 2025):

German industrial output falls to 2005 levels as auto sector craters

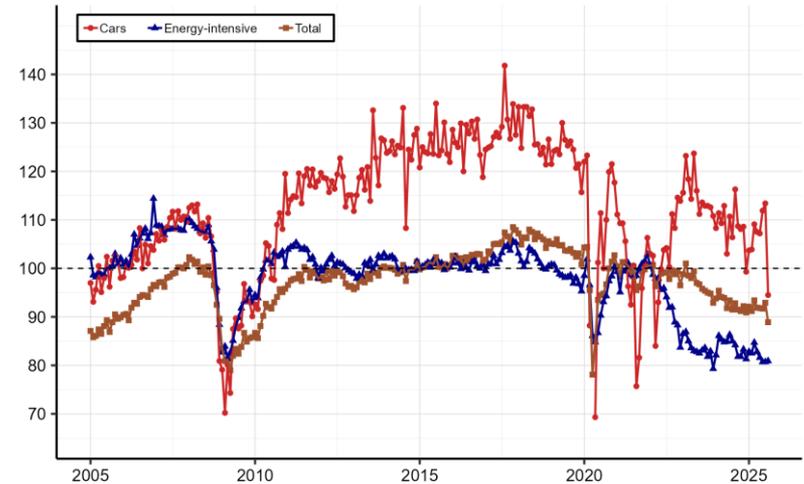
Weak August data raises risk of Eurozone's biggest economy falling back into technical recession

German industrial production fell back to 2005 levels in August as output in the country's all-important car industry cratered by 18.5 per cent compared with the previous month.

The unexpectedly poor data comes as German Chancellor Friedrich Merz is set to meet the bosses of the country's carmakers on Thursday in Berlin to discuss the woes of the struggling sector. [Merz](#) has promised to reinvigorate the Eurozone's biggest economy but has so far fallen flat.

Overall, industrial production fell 4.3 per cent in August compared with the previous month, seasonally adjusted data showed on Wednesday. Economists had predicted a smaller drop of 1 per cent in a Reuters poll.

Index value (2021 = 100)



Note: April 2020 excluded.
Data: Destatis

This wasn't me...

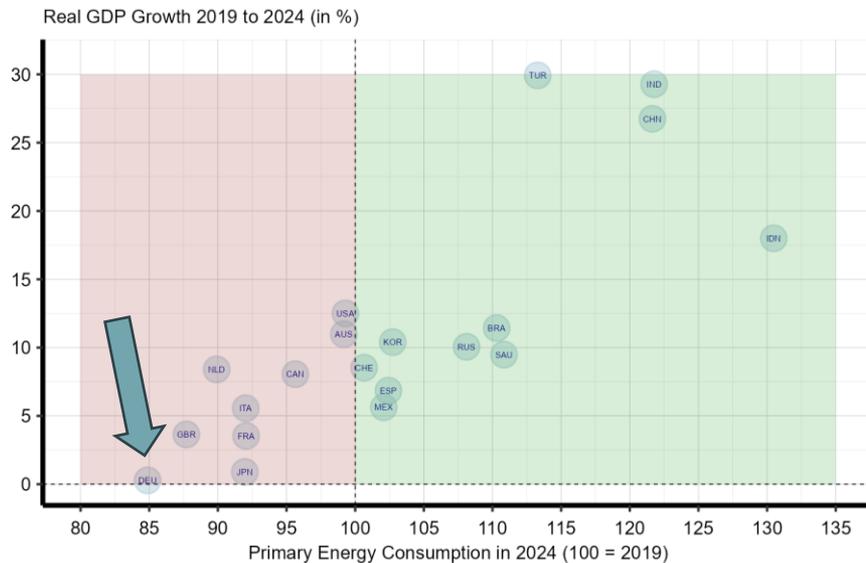


— Helvetico 1 HOUR AGO (Edited)

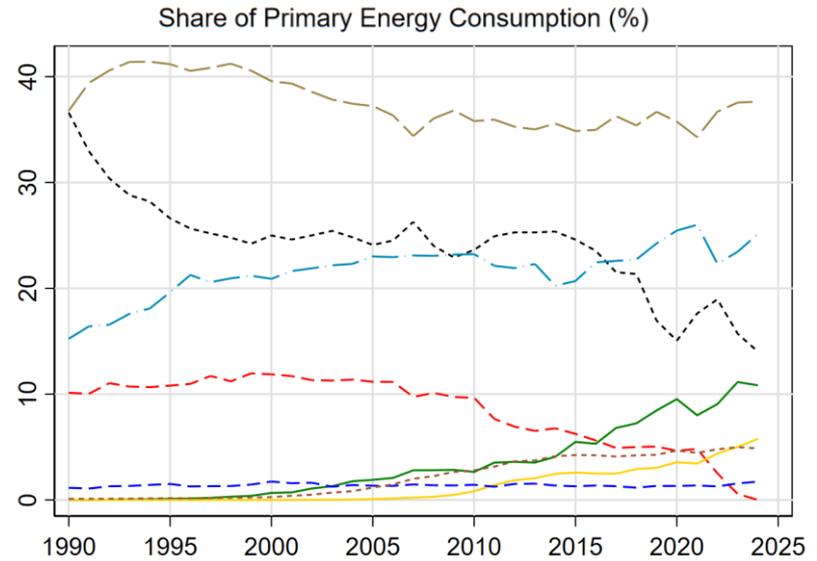
Not to worry. The burgeoning Döner Kebab/barber shop/shisha bar sector should keep the economy afloat indefinitely.

The energy transition – a role model for whom?

- No top-20 economy reduced its energy consumption like Germany. None grew as little. Coincidence? And despite all efforts, Germany still runs 77 percent on fossil fuels.



Note: Chart shows 20 largest economies.
Data source: IMF WEO April 2025, Our World in Data

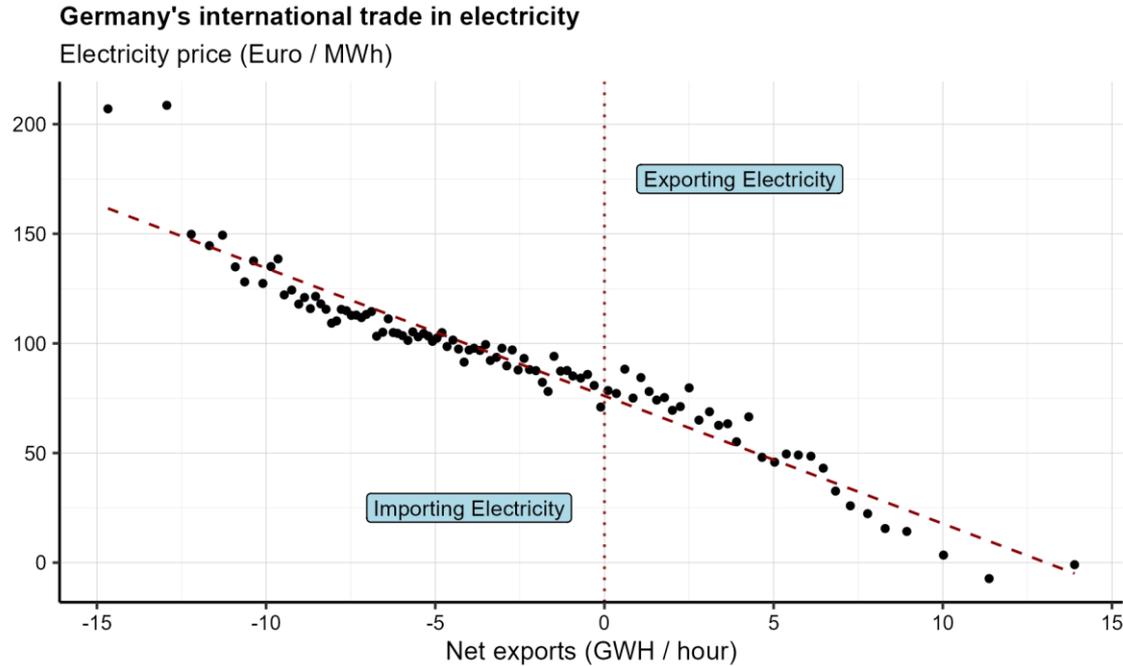


- - - - Coal - - - - Gas - - - - Oil - - - - Nuclear
 ——— Wind ——— Solar - - - - Hydro - - - - Other Renew.

Source: Our World in Data (2024)

Germany sells electricity cheap, buys at higher prices.

- Germany's *Energiewende* also pops up in trade data – as cautionary tale:



Note: Hourly data grouped into 100 average values. Data for Oct 25, 2024 to Oct 25, 2025.
Data: Agora

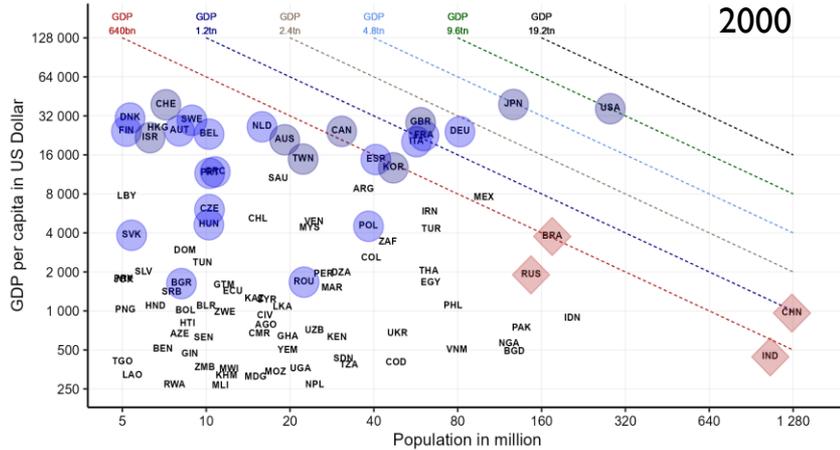
Terms of trade are the ratio of export to import prices.

On average, Germany buys electricity for €109 / MWh and sells for €52 / MWh.

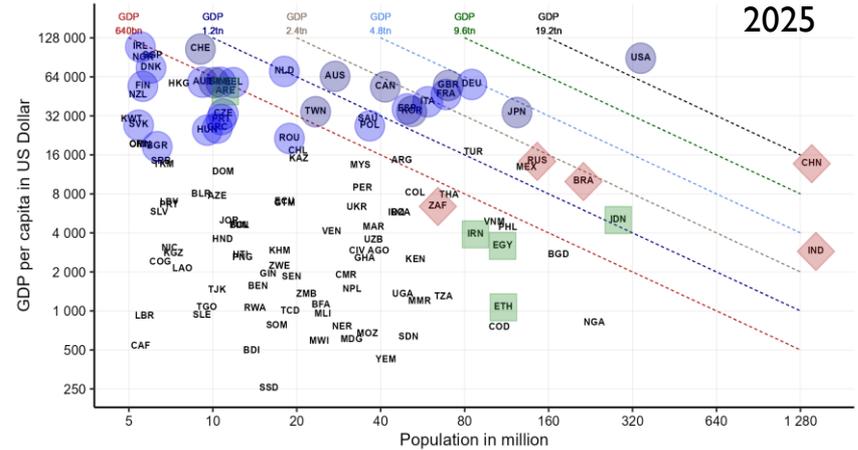
Buy high, sell low – that's *not* how you make money.

It's not 2000 anymore. There's a new, big rival.

- The world went from BRIC to BRICS+ ([Legge, 2025](#)):



Note: Data for year 2000. Only nations with 5m+ population and \$250+ GDP per capita. Data from IMF WEO April 2025



Note: Data for year 2025. Only nations with 5m+ population and \$250+ GDP per capita. Data from IMF WEO April 2025

- China is no longer the cheap workbench of the world, instead leads 57 out of 64 technologies ([ASPI](#)).
- Europe's post-WW2 success was based on historical anomalies ([Ganesh, March 5, 2025](#)):
 - Peace dividend,
 - demographic dividend,
 - lack of competition.

II. The Future

Things can be better again

12:30 – 12:50

The *opposable mind* is the predisposition and the capacity to hold two diametrically opposing ideas in your head.



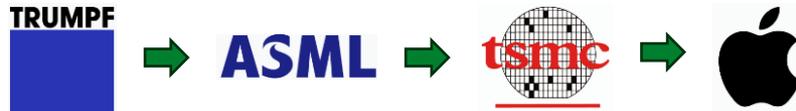
Roger L. Martin

Identifying Strengths

Germany is still a highly successful nation.

Germany's hidden champions are still indispensable.

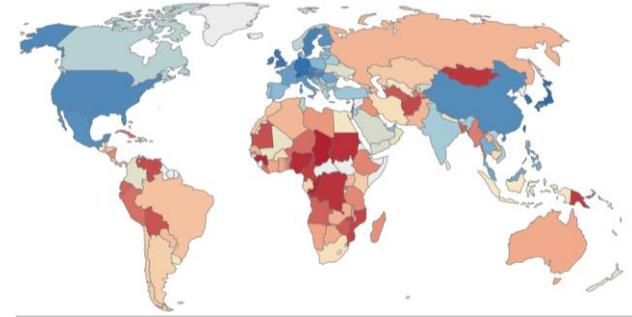
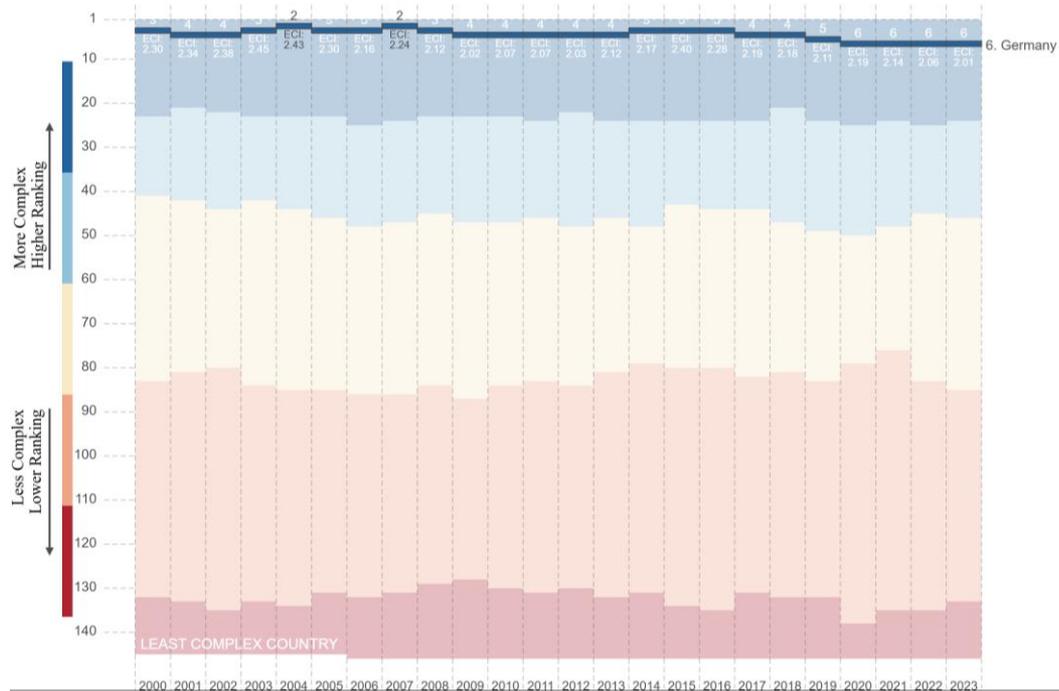
- As a result of the ICT revolution, we got a globalization of production with global supply chains. In the words of Pankaj Ghemawat ([HBR 2007](#)): Adaptation, Aggregation and (new) Arbitrage



- Most high-value products are now essentially *global products* – and German firms are indispensable in B2B. Overall, 1'500+ hidden champions, almost 20 per 1m population ([Simon 2022](#)). [Apple](#), for instance, has 767 suppliers in Germany. This include companies like ZEISS and TRUMPF.

Germany still produces highly complex goods.

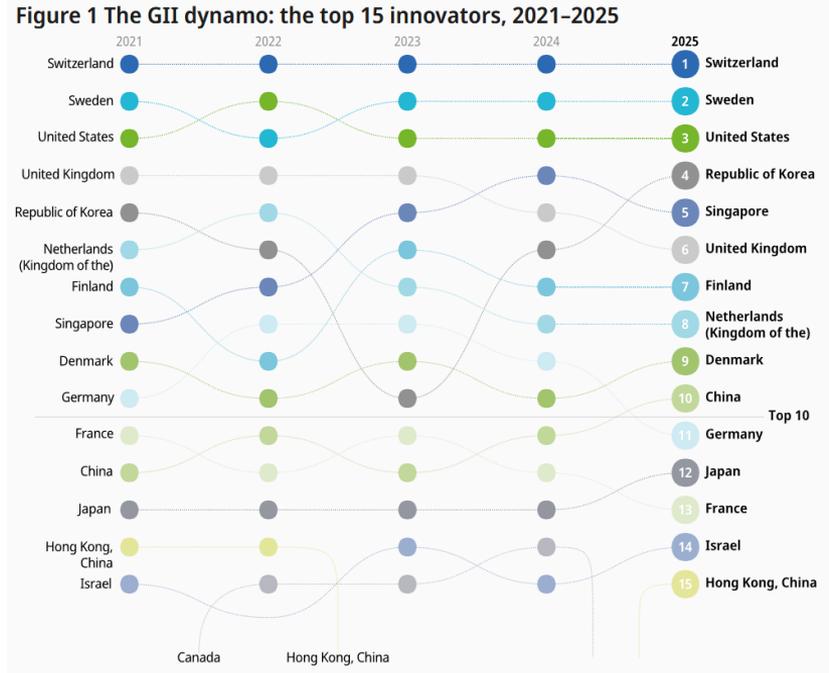
- Germany is still innovative, producing highly complex products ([Harvard Growth Lab](#)):



RANK	COUNTRY	ECONOMIC COMPLEXITY INDEX (ECI)
1	Singapore	2.52
2	Switzerland	2.51
3	Japan	2.43
4	Taiwan	2.24
5	South Korea	2.23
6	Germany	2.01

Germany is still home to innovation.

- The *Fatherland* remains among the world's most innovative nations ([WIPO 2025](#)):



The **WIPO Global Innovation Index (GII)** ranking is a composite measure of innovation performance based on two equally weighted components:

1. Innovation Input Sub-Index — what enables innovation

- * Institutions (political, regulatory, business environment)
- * Human capital & research (education, R&D, researchers)
- * Infrastructure (ICTs, energy, general infrastructure)
- * Market sophistication (credit, investment, trade, competition)
- * Business sophistication (knowledge workers, etc.)

2. Innovation Output Sub-Index — what innovation produces

- * Knowledge & technology outputs (patents, publications, high-tech exports, productivity)
- * Creative outputs (intangible assets, creative goods/services, online creativity)

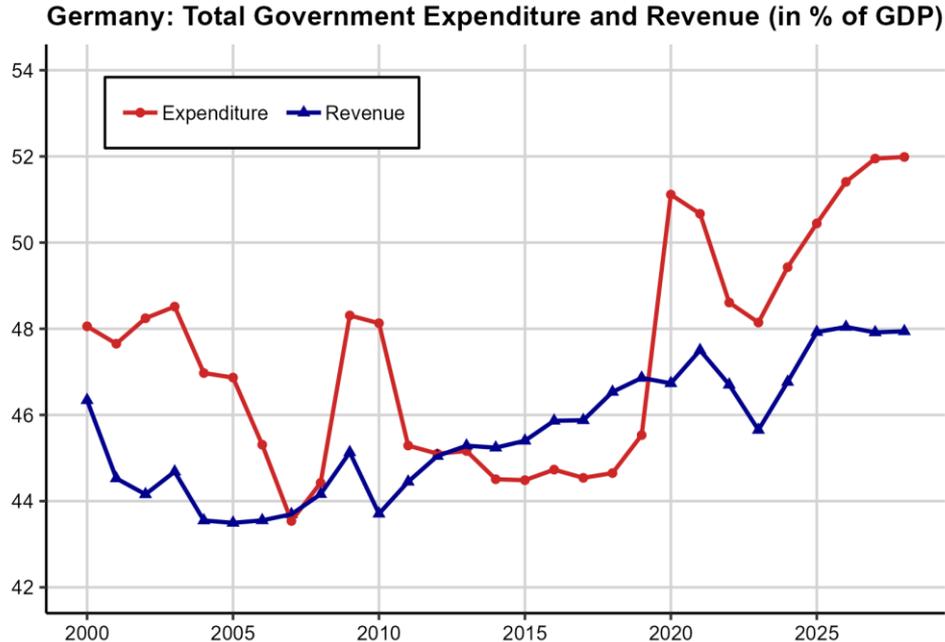
Each pillar contains multiple indicators (78 in 2025).

Implementing Reforms

The last bullet missed its target.
But better policies are possible.

What will the *Sondervermögen* achieve? Debt. A lot of it.

- The public sector grew massively in recent years – for better infrastructure & military?



Data: IMF WEO Oct 2025

How much of a fiscal switching yard is this *sonderbare Vermögen*?

The Ministry of Transport's budget is cut from €38bn in 2025 to €28bn in 2026.

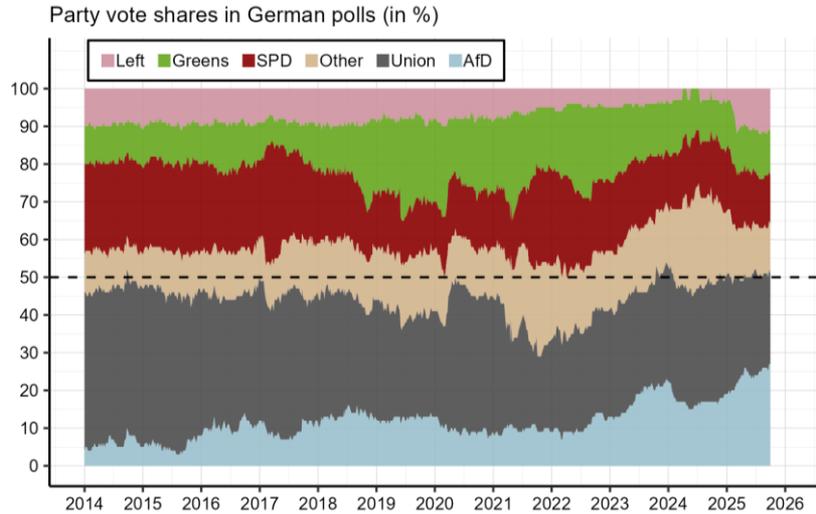
Bridges & roads are not built with money, but people & equipment (and permission).

In 2026, total spending at the federal level is projected to be €630 billion of which €174 billion are financed with new debt.

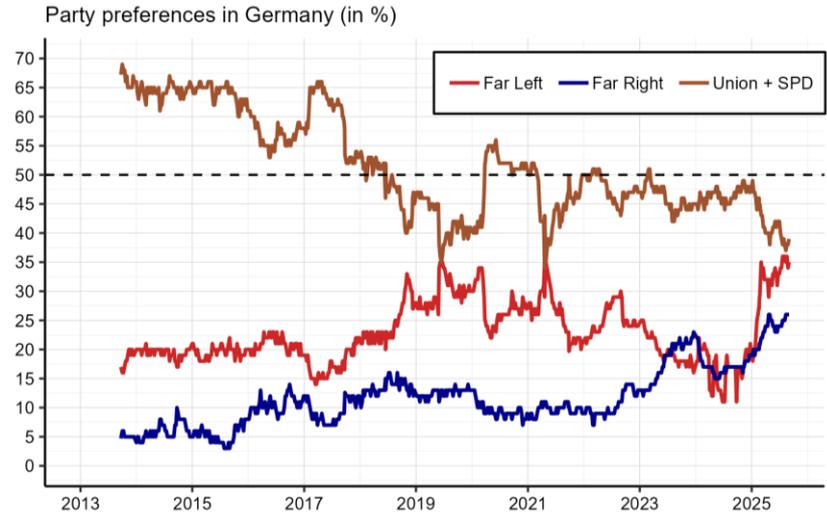
Every third Euro spent is borrowed (BR).

Increasingly, voters seek an alternative for Germany.

- Massive public spending has not made the two key parties more popular.



Note: Other includes FDP, BSW, FW, and others. Data: Forsa, Oct 26, 2025



Far right = AfD, Far left = Greens + BSW + Linke. Data: Forsa, Oct 26, 2025

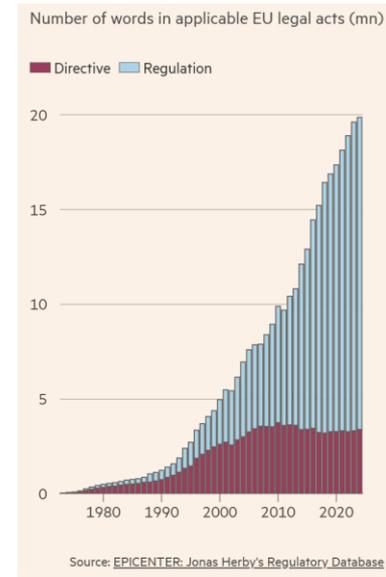
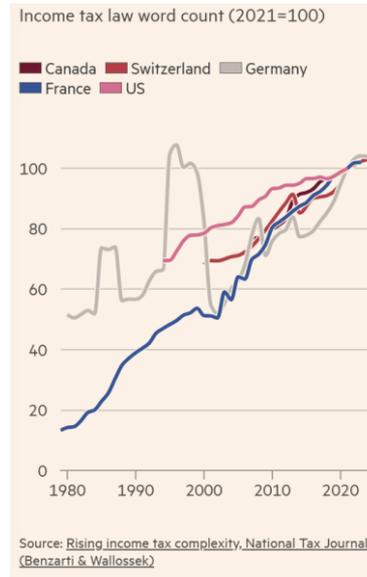
- What's next then?

What to do now?

- The Federal Minister of Economic Affairs recently got some advice ([Oct 6, 2025](#)).
Let me build upon this. Some key points:
 - Clarify policy preferences.
Zero- or de-growth comes with a heavy price tag ([Moral Consequences of Growth, 2006](#)).
 - Cut red tape. Everywhere. With a chainsaw.
Otherwise, nothing will happen – either because planning takes too long or because it's illegal.
 - Cut welfare for the middle class.
Left-pocket / right-pocket redistribution is a good vote grabbing strategy but highly inefficient.
 - Welcome talent from abroad but be demanding.
Language & work are a must. Crime a no-go. There is no such thing as an immigrant – discriminate properly.
 - At the European level, finally establish a single market and embrace scale. Big can be beautiful.

Cut regulation. Lots of it.

- “These days, if you think about opening up a dairy shop across the street, you might as well forget about that.”
– Hans-Rudolf Merz, former Swiss Federal Council, [NZZ](#), March 3, 2025
- It’s no better in Germany or the US ([Abundance](#)). Red tape ([FT](#), Sep 13, 2025) as in [Gulliver’s Travels \(1726\)](#):



Does Merz still remember what he used to be known for?

- He once had a brilliant idea – and used beer coasters to illustrate it:



Family income: €42'000

Allowance: 2 x €8'000

Taxable income: €26'000

Income tax:
€10'000 x 12%
+ €10'000 x 24%
+ €6'000 x 36%
= €5'760

But some people will complain about reforms...

- Policymakers ought to recall what German politicians of the past said:



Konrad Adenauer (1963):

The most important thing is courage!
A good politician must not only know many things, must not only think realistically, must be capable of reflection — but he must also have the courage to tell others what he has recognized as right, to convey it, and to carry it out.



Helmut Kohl (1982):

The dogs bark but the caravan moves on.



Franz Josef Strauß:

Everybody's darling is everybody's Depp.

III. Conclusion

Key points & discussion

12:50 – 13:00

There is plenty going wrong for Germany.

- The list of worrying developments – domestic and international – is long:
 - Zero economic growth – [zero-sum thinking](#) and fragmented politics in Germany.
 - Sticky price & wage inflation – Room for fiscal & monetary stimulus largely exhausted. [Tax-to-GDP](#) is already at record-high. And Germany does not face a business cycle problem. It is structural.
 - Major demographic shifts – Germany will lose 11% of its working-age population in the next ten years.
 - Educational results are getting worse ([PISA](#)) – Germany's foreign migration is low-earning ([DeStatis](#)).
 - Rising impact of climate change – Germany's *Energiewende* is no role model for others.
 - While German [SAP](#) pays 30%+ effective tax rate, American [Oracle](#) gets away with about 8%.
 - Support for free international trade is waning – but Germany's exports are 50% of GDP.
 - Geopolitical rivalries heat up, Hobbes is winning over Kant ([Robert Kagan](#)) – Germany is [defenseless](#).
 - Unprecedented technological sprint regarding robotics & AI – Europe regulates while USA/CHN innovate.
- All in all, a multitude of overlapping and interrelated **negative** developments.

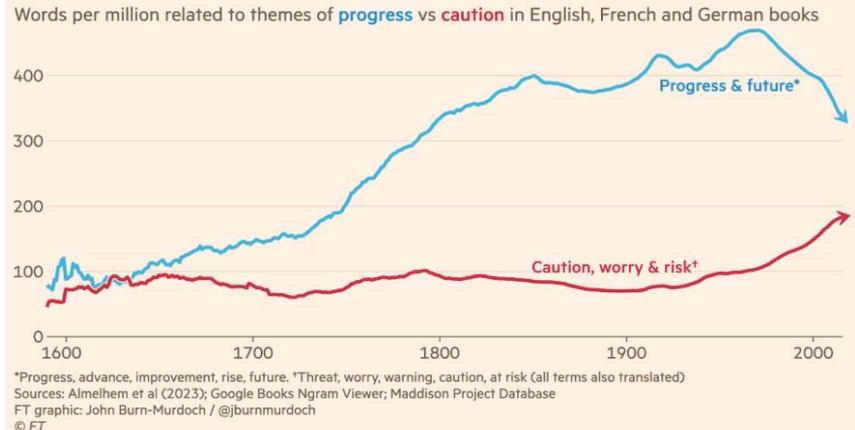
Pessimism is no fertile ground for economic progress.

- Recall what we learned from Joel Mokyr, recently awarded the Nobel Prize in economics.

British culture became progress-oriented around two centuries before the same shift in Spain, creating the conditions for much earlier industrialisation



The west has shifted away from a culture of progress in recent decades, and towards one of caution, worry and risk-aversion



Financial Times, Jan 5, 2024

- Lately, we observe a rise in pessimism in German-speaking countries ([Stiftung Zukunft.li](https://www.stiftung-zukunft.li), Oktober 2025).

Conclusion: Let's sum up the main points.

- Germany's economy is in big trouble. And it's getting worse.
GDP per capita has been stagnant since 2018 and is likely to stagnate for another decade.
- The car industry was, is, and will be key to Germany's economic success.
A diversified set of other and also new successful export products exist, but scale is lacking.
Hidden champions in niches can be nice – alas, a populous nation like Germany requires more.
It has a below-average share of start-ups with weak post-entry performance ([OECD, 2025](#)).
- The nation still has options to adjust to new circumstances.
Germany will not, cannot just copy the US. It has an entirely different business environment ([Evenett & Legge](#))
and thus must **carve out its own path, building & nurturing upon existing strengths**.
- Investors might look out for cigar butt businesses in Germany: Cheap companies with a few puffs left.
- With a set of serious reforms, one of the world's most innovative nations can regain momentum.
Optimism is a duty, as Karl Popper said.

Thank you. Let's discuss now.

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