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Demagoguery dangers in Deutschland

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It is common for politicians in trouble to seek scapegoats for their own incompetence and wrong-headedness, but when this begins getting widespread popular support, both the people's liberties and pocketbooks are in danger.

Given its history, one would think Germany's people would be particularly resistant to demagogy. Unfortunately, that is not the case. Recently, Franz Muntefering, head of Germany's left-wing Social Democratic Party (the SPD), which also is the lead party in the governing coalition, accused business leaders of being "anti-social" and like "swarms of locusts." Rather than denounce him for attacking businesspeople and "international capital," other SPD leaders joined in the denunciations.

Attacks on a despised minority or class in all societies tend to gain support during times of economic stress. Germany has gone from being the economic miracle of Europe to a poster child of what not to do. In the 1950s, '60s and '70s, Germany grew much faster rate than the U.S., and by 1980 had almost caught the U.S. in terms of real per capita income. But with the Reagan revolution in the early 1980s, U.S. economic growth soared, while Germany's slid to less that half the U.S. rate.

This year, the U.S. economy is expected to grow near 4 times faster than the German economy. For years, German unemployment has been slowly rising so it now stands at 11.8 percent versus 5.2 percent in the U.S. German real per capita income is now lower than the European Union's average. As one would expect, this terrible economic performance has caused great anger and frustration within Germany.

Faced with a system clearly not working, responsible people will try to objectively assess what went wrong, then come up with corrections. Irresponsible people will find scapegoats and make them targets, rather than deal with the real problem.

SPD leaders claim Germans are disloyal for investing outside Germany. But what is a responsible person to do if the investment opportunities in the home country are inferior to those in a foreign country -- where investment is welcomed, protected and not taxed and regulated to death?

The chairman of Lufthansa airline and a director of the "Invest in Germany" organization, Jurgen Weber, replied to the SPD leaders: "if it turns out that this criticism of capitalism has a fundamental nature, then we don't need an Invest in Germany organization any more."

The SPD leaders' attacks on the capitalistic system and the market economy will only make the situation worse by further discouraging both Germans and non-Germans from additional investing in Germany.

The sources of Germany's problems are not hard to find. In the 1950s, the Germans built a strong market economy. But then the socialists came up with their so-called improvement, which they named the "social market economy." The "social market economy," it was claimed, would make capitalism more humane by building an extensive welfare state coupled with detailed business regulation, particularly of labor practices. As a result, business people found it almost impossible to fire workers even when their performance was terrible or they were not needed.

The welfare state became extremely costly which, in turn, drove up taxes. Higher taxes and regulations reduced incentives to work, save or invest in Germany. Germany thus went from one of the world's most competitive states to an also-ran.

With the EU's expansion, Germany finds itself in even more difficulty since its neighbors in Central and Eastern Europe can greatly undercut its labor rates, labor practices and taxes. The superior German productivity is no longer enough to overcome all of the tax and regulatory drag.

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