



OAK INVESTMENT MANAGEMENT GROUP



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The listless heart of Europe

Germany is the listless heart of Europe. It has neither the stomach, the will or the capacity to provide leadership to a cantankerous collection of European nations. It has committed its whole unquestioning being to the European project and does not want to contemplate any alternative to this political course but insodoing has presented itself with an impossible (and thankless) challenge.

Germany's economy and its own political imperatives have been neglected as it strives to play 'big' politics in Europe and through Europe in the world. The failure of Merkel to secure a working coalition in the same hue as her party is a self-evident indictment of how she has run the country to date: everything from the Greek debt crisis to dealing with Britain's departure from the European Union has contributed to lack of focus on how Germany is run.

The greatness of modern Germany relies on the impressive post-war growth. This was only possible as a result of Konrad Adenauer's CDU/CSU narrow victory over the SPD's Kurt Schumacher. Had the SPD won, Germany would have committed even more economic self-harm than the Labour Party of Great Britain did at the time with their far-ranging nationalisations. As it was the economy flourished under the tutelage of Ludwig Erhard, who severely restricted the development of 'welfare state' until such a time as West Germany could afford it in 1957. Clearly strong underlying growth *and* the welfare state made Germany the wonder of the world thereafter.

In 1990 the first foray from being 'the economic giant and political dwarf of Europe' as well as fulfilling its post-war destiny of uniting Germany did not go so well economically once the euphoria wore off. The huge (and arguably unnecessary) generosity of the unification terms, capital transfers and non-organic reconstruction was the opposite of what West Germans had lived with between 1945 and 1957 – did not elicit affection or more importantly productivity from the Germans of the East. It was the Hartz labour reforms that rebalanced Germany and although they dethroned the SPD Chancellor, Gerhard Schröder, was a bequest off which all Germans but specifically the CDU has lived ever since.

Nonetheless, as with all labour reforms, there is a *theta* to this boost and it will become apparent that whereas Merkel's predecessors left her an imbedded advantage her successors will have to deal with the long-term consequences of misspent surpluses as well her lack of focus on what matters to make Germany work better. The touted grand coalition will make it impossible to better the terms of the labour market – and indeed will only ensure that productivity gets worse. Governing Germany will become more technocratic with a welcome focus on inward-looking detail, but Germany will not be an engine of growth in the short to medium term. A golden window has closed.

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