Model or liability? The new career of the ‘German model’

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‘We need more Germany in Europe.’
Toomas Hendrik Ilves, President of Estonia, July 2013\footnote{FAZ, 10.7.2013; on the occasion of a state visit by German President Gauck to Estonia Ilves called on Germany to ‘take a more decisive lead in Europe and to be less willing to compromise with the indebted states of southern Europe’.

‘Progress – that also means bold reforms to safeguard employment, as Gerhard Schröder already showed us.’

‘Deutschland, Deutschland über alles!’ [to hearty laughter]
John Bowe, board member of Anglo Irish Bank, October 2008\footnote{FAZ, 26.6.2013; the quotation comes from the recording of a telephone conversation with chairman of the board David Drumm, the topic of which was how urgently needed deposits could be obtained from large investors to shore up the struggling bank.}

After being written off ten years ago as ‘the sick man of Europe’ and poised on the brink of the abyss, Germany is once more being feted as a model. The turning point in its meteoric career was the much-cited ‘employment miracle’ of 2008/2009: while the German economy was driven by the global crisis into the deepest recession since the establishment of the Federal Republic the effects on the labour market were the mildest in the EU. Thus began what Chancellor Merkel had announced at an early stage: Germany ‘emerged from the crisis stronger’ (at least politically).

With particularly high growth rates from the second half of 2009 – although they continued only until 2011 – the second part of the success story commenced. While an increasing portion of the euro zone was heading into a further crisis, which is still going on, German policy put on a show that others were keen to emulate. With the motto ‘Everyone is the architect of their own fortune’ the German government declared its policy and that of its predecessors to be a model for the rest of the EU

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3. FAZ, 26.6.2013; the quotation comes from the recording of a telephone conversation with chairman of the board David Drumm, the topic of which was how urgently needed deposits could be obtained from large investors to shore up the struggling bank.
and especially the euro zone. In the media, both in Germany and abroad, it has become part of the conventional wisdom that German success originated in Agenda 2010. This is how the world champion exporter managed to export even Hartz IV, pensions at 67 years of age and the debt brake, although coercive measures were needed to get people to buy into these innovative products. But is there any truth in this success story?

1. Leading up to the crisis: the pathogenic man of Europe

The core of what was long described as the German variant of ‘coordinated’ or ‘Rhenish capitalism’, was a combination of economic dynamism and relatively low social inequality. Up to around 20 years ago institutions such as the system of industrial relations, labour law and the welfare state enabled the economy as a whole and large segments of the population to benefit from the success of the global market-oriented industries based on high added value and quality production and sustained by ‘patient capital’ and well paid employees. However, after the historic turning point of 1989/1990, the overnight monetary incorporation of eastern Germany and the subsequent long-term unemployment the German model, at least to domestic observers, was portrayed in ever more sombre colours. One leading economist very popular among journalists described Germany as the ‘sick man of Europe’ and asked whether ‘it could still be saved’ (Sinn 2003). This was when the political and economic upheaval initially introduced surreptitiously in the 1990s reached its zenith – or nadir – and in particular with ‘Agenda 2010’ went even further than the adjustments to the neoliberal mainstream made in many other EU countries. As a result, the German model, on the eve of the great crisis of 2008/2009, offered something new: a revived and high-performance export industry in an environment of social and institutional disintegration and fragmentation.

This constellation helped to pave the way for the crisis. It is one of the main reasons for the emergence of the current crisis in the euro zone.

1.1 Profiting without investing: a business model

The alpha and omega of Germany’s economic success is the strength of its export industry. It also provides the basis for the self-confidence
displayed by the German government and the mainstream media: why should a country give ground when it’s doing so well – the others should simply try harder! In fact, German industry’s export success is based primarily on the high specialisation and product quality especially of capital goods, the strong orientation towards customer service and the flexibility and qualifications of the employees, all factors embedded – at least hitherto – in comparatively strong medium-sized (Mittelstand) ownership structures and a broad system of institutions ranging from occupational training to codetermination, as well as in a culture in which technical work is appreciated (for more details see Lehndorff et al. 2009). It is thus too simple to claim, as critics of the German economy occasionally do, that the economic imbalances in Europe stem from German ‘wage dumping’.

But what is the problem, then? In order to understand what is at stake, both sides of wages – their role as a cost factor and in terms of demand in the national economy – should be considered. Let’s start with the first.

The imbalances in the euro zone are basically connected to the fact that the competitiveness of the German economy, with its product-related fundamentals, was supplemented from the beginning of the 2000s by a fall in unit labour costs in comparison with the other EU countries. Average real wages in Germany fell, while labour productivity rose in relation to the EU average, which enabled particularly low price increases far below the euro zone average, as well as the ECB’s target inflation rate. Even in industry unit labour costs in Germany fell up to 2008 much more than in any other country in the euro zone, with the exception of Finland (on what follows see Herzog-Stein et al. 2012). On top of this comes the fact that wages in the private services sector in Germany are on average 20 per cent lower than in industry (unprecedented in the EU), which means that many pre-services for industry are extremely cheap. The Bundesbank (2011: 17) was thus certainly right to claim that German export success also gained ‘impetus from improvements in price competitiveness’.

It can reasonably be pointed out that demand for many German export products does not depend primarily on price. It should be borne in mind,
first, that this does not apply by any means to all export branches. However, there is no doubt that in particular in automobiles and machine building, which account for around one-third of German goods exports, the price elasticity of demand is relatively low. Thus although unit wage cost advantages in the metal industry were not reflected in falling prices subsequent to 2000, while at the same time competitors in other eurozone countries raised export prices – at least in relation to the sector average – profits increased (IG Metall 2010). The Bundesbank (2011: 33), too, pointed out that part of the relevant cost benefits ‘were apparently used to increase profit margins’. I shall return to this important point in due course.

The other side of the coin was the domestic economic imbalance, which indicates the importance of falling average wages for the development of economic demand in the German economy. From the end of the 1990s the key issue was the level of labour costs. Bringing them down in order to boost the competitiveness of the German economy was the focus of all public ‘debates’. The supposed imperative of lowering labour costs was never questioned, whether in relation to pension reform, decentralisation of collective bargaining or tax policy. However, in contrast to what had been prophesied by the neoliberally inclined main actors in the economy and politics no impetus was discernible from falling wages and labour costs for either investment or growth. Germany’s special role within the EU is reflected in the GDP growth rates, the price level and disposable household income since 2001: German rates of increase were below the EU average almost continuously (Table 1).

As a consequence, in the period between 2001 and 2008 three-quarters of German economic growth was attributable to the export surplus, while domestic demand contributed only a quarter (Priewe and Rietzler 2010: 64). The weak wage development thus hindered both a transfer of the growth impetus from the export boom to the domestic market and also a boost to imports, which would have enabled Germany’s trading partners abroad to benefit from its export-induced growth impetus (Joebges et al.

5. For example — to give an extreme instance – the particularly crass social and wage dumping in German slaughterhouses caused a public outcry in German public opinion. German media, however, were less concerned with the external effects of this: jobs are at serious risk especially in the Danish, but also in the French meat industry; in Denmark there has been a heated debate about the maintenance of wage standards (Czommer and Worthmann 2005; Refslund 2012).
Herzog-Stein et al. (2013: 17) show, on the basis of alternative model calculations, that higher wages would not have adversely affected either employment or economic growth: ‘The stronger domestic dynamic would have compensated for the weaker foreign demand and growth and employment would have been higher with such a wage policy.’

The domestic weakness of Europe’s largest economy was the main source of the external imbalances that led to the overt crisis in the eurozone. While in previous decades the exchange rate adjustment mechanism would have made it possible for weaker economies to compensate on occasion for such developments, since the founding of the monetary union two-fifths of Germany’s foreign trade now no longer had to fear such action. Germany’s business model now flourished in the way it had been hoping for since the signing of the treaties on European monetary union in the 1990s. This paid off, as the impressive rise in current account surpluses proved only a few years after the introduction of the euro (Figure 1).

To sum up, the criticism often formulated by critical observers that Germany exports too much tends to divert attention from the core problem. It makes more sense to emphasise the other side of the coin: Germany imports too little. In order to avoid misunderstandings it would thus be better to criticise the import deficit, rather than the export surplus. Incongruously – and uniquely – the strongest economy in the eurozone drove down average domestic wages, thereby making itself one-sidedly dependent on exports (with important side-effects on profitability), while at the same time depriving its competitors of the opportunity, due to the weakness of its domestic market, to compensate by increasing

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their own exports to Germany. *Making profits without investing* – this is the common denominator that sums up the German business model in the euro zone.

The upheavals in the German economic and social system – which reached their apex with Agenda 2010 – have contributed substantially to this dubious success.

1.2 ‘Hartz IV is poisoning Europe’

What lies behind the weak wage development in Germany, which is often referred to as ‘wage moderation’? Are the trade unions letting themselves be swayed in their wage policy, as both domestic and foreign critics occasionally suspect, by an imperative to boost the price competitiveness of export industry? Although a competition-oriented corporatism certainly exists, it is itself part of a more complex problematic. Attempting to understand this brings us to the heart of the upheavals of the German employment model.

Figure 1  Germany’s current account balances with the countries of the euro zone (€ billion)

Source: Bundesbank; author’s own graph.
A glance at the development of collectively agreed wages from 2000 to 2012 (Figure 2) yields a perhaps surprising realisation. In the metal and chemical industries, of all places – in other words, in the two economic branches exposed most intensively to international competition – collectively agreed wages and salaries have risen most strongly. It is true that even the comparatively assertive trade unions in these sectors were unable up to 2008 to take full advantage of the so-called distributionally neutral leeway defined as the sum of price rises and aggregate productivity growth (I shall go into more detail concerning subsequent years in due course). The main reasons for the low average wage rises, however, lay in branches – such as retail trade and public services – that are not exposed to international competition or only to a small extent.

What weighed down the Vereinigte Dienstleistungsgewerkschaft (ver.di – United Services Union) in public services collective bargaining was the tax reforms of the SPD/Greens government, which resulted in considerable loss of revenues for public finances (in the middle of the previous decade they had amounted to more than 40 billion euros a year; Truger and Teichmann 2010). The massive pressure for spending cuts thus unleashed directly affected the wages (as well as working time) of

![Figure 2: Development of collectively agreed wages in selected branches, 2000–2012 (2000 = 100)](image)

Source: WSI-Tarifarchiv.
public service employees. An important side-effect of this pressure was the exit from the public employers’ collective agreement by the federal states hit hardest by declining tax revenues. It was thus no accident that collectively agreed wage rises in public services were among the lowest in the major economic sectors. This was owing not least to trade union fragmentation: broad swathes of public employees now had to seek salary increases without being able to rely on, for example, the propensity to strike of the refuse collectors. The changes in the institutional framework and the political balance of power are inextricably linked.

All these are features of the first structural break, namely the erosion of the power political constellation and institutional architecture within which the so-called convoy principle has traditionally functioned in German collective bargaining. The tacit conditions for the success of that ‘wage formula’, to which the industrial trade unions continue to orient themselves in their bargaining policy, have been unhinged at the level of both primary distribution (collective bargaining) and secondary distribution (welfare state compensation mechanisms). As a result, the real problem facing the trade unions is the loss (or relinquishment) of political influence over the implicit conditions of a more solidaristic wage policy (‘convoy principle’), including in particular tax policy and the cornerstones of labour market regulation (described below). The drifting apart of collectively agreed wages thus conceals both a power political and an institutional break, which probably can be made good by means of collective bargaining only to a limited extent.

The second structural break is expressed in the fact that real wage increases from 2000 until the crisis were only half as high as collectively agreed wage increases (nominal 12.7 per cent in contrast to 23.6 per cent) so that real wages per capita fell by over 4 per cent (Unger et al. 2013; Figure 3). This was due to the following:

– the weakening of the trade unions: net trade union density has fallen from around 30 per cent in the mid-1990s to around 19 per cent today (ICTWSS Database 2013);
– the abatement of collective agreement coverage: in 1996 70 per cent of employees in western Germany worked in companies covered by branch collective agreements, but by 2012 this had fallen to 53 per cent (in eastern Germany the proportion fell from 56 per cent to 36 per cent; Ellguth and Kohaut 2013); according to the Federal Statistical Office (Statistisches Bundesamt 2013a) in 2010
even including company agreements only 55 per cent of employees were working in companies covered by collective agreements;

– the systematic dismantling of the option of the government declaring branch collective agreements to be generally binding by the employers’ umbrella organisation (Schulten and Bispinck 2013);

– many local deviations from collective agreements since the early 2000s. In particular, in the metal industry wage cuts and prolongations of working time would have hollowed out the system of collective agreements if the trade unions had not counteracted them by eventually mobilising the membership (Haipeter 2013).

Besides these institutional changes – third – institutional foundations have also started to show cracks. Two changes in particular are important here: on one hand, the outsourcing of pre-services, by means of which ever broader segments of industry and services are becoming subject to lower working conditions and wage standards; on the other hand, the privatisation of public services. Thus in line with the EU services directive, for example, massive low wage competition became a feature of postal services. Needless to say, neither outsourcing nor privatisations are particular to Germany. However, in connection with the
abovementioned institutional upheavals – especially the widening gap between wages in industry and in services, as well as the lack of generally binding collective agreements – they are reinforcing the dampening effect on labour incomes.

The *fourth* and particularly onerous stumbling block on wage development is the *changes in the architecture of labour market regulation* since 2003 (on the following see Bäcker *et al.* 2011 and Knuth 2014):

- The massive reduction in unemployment insurance in favour of a system with means testing that requires that offers even of jobs with low standards must be accepted has had an intimidating ripple effect in broad segments of the labour market (Erlinghagen 2010).
- The German government paved the way for dumping collective agreements with the de facto abolition of the European equal pay principle in temporary employment. From 2003 to 2008 the number of temporary employees doubled to almost 3 per cent of all employees subject to social security contributions. Temporary workers on average earned around half as much an hour as standard employees in 2006.
- Strong impetus for the extension of atypical employment was given, on one hand, by public subsidies for low wages within the framework of Hartz IV and, on the other – and frequently in combination with it – by the promotion of mini-jobs with pay of up to 450 euros. Around 14 per cent of all dependent employees – most of them women – are now exclusively in marginal employment (even not including schoolchildren, students and pensioners the figure is around 9 per cent) and 84 per cent of them are on low wages (Weinkopf 2012).

Bäcker *et al.* (2011: 48) sum up the most important effects of these labour market ‘reforms’ as follows: ‘since the introduction of the ‘Hartz reforms’ pressure has increased to accept employment even under the poorest conditions as regards low wages, temporary work, fixed time employment, part-time work or mini-jobs’. As a consequence of these upheavals since the mid-1990s a large low wage sector has emerged; on the eve of the crisis 22 per cent of employees earned less than two-thirds of the median wage (Figure 4). Particularly noteworthy is the fact that only a minority of them – around a fifth – have no occupational or academic qualifications. The justification of low wages often presented – that they offer low qualified people a chance to enter the labour market – is thus highly dubious.
One aspect is worth emphasising in this context: the significance of the mini-job regulation, which has contributed substantially to the growth of the low wage sector, is closely related to the maintenance of the conservative welfare state which partly compels and partly promotes limited participation by women in working life. The lack of child care facilities makes it difficult for many women with young children to resume work fairly quickly, while the tax and social contribution system makes unequal distribution of employment income between married couples financially attractive (Bosch and Jansen 2010). Even though this system, which is still stuck in the 1950s, is increasingly coming under criticism and some modernisation has taken place (such as the introduction of a parental allowance on the Swedish model) its stability stands in marked contrast to the neoliberal inspired reforming zeal in other areas. The extent of this stability is reflected in the retention of a benefit for parents not using child care, as well as in the stubborn defence of tax splitting for married couples. The precaritising effect of the upheavals in the institu-
tional system of the German labour market is massive also because of the reciprocal action of these ‘labour market reforms’ and the conservative gender model in the German welfare state.

The fall in (price adjusted) average wages among all employees in the 2000s up to the crisis is thus not to be attributed primarily to ‘wage moderation’ on the part of the trade unions in export industries, but rather to the widening gap between collectively agreed and actual wages as a consequence of the upheavals in the employment system. ‘Hartz IV is poisoning Europe’, as one commentator succinctly put it in the sadly now defunct Financial Times Germany (Münchau 2010).

On the German government’s own account of the matter, which public opinion has largely bought into, things are rather different. Thus Chancellor Merkel, at a global economic forum in Davos, announced that the ‘structural reforms’ implemented in Germany ‘under the name “Hartz IV”’ had ‘led to a massive improvement in the labour market’ (Merkel 2012). Let us therefore briefly examine what evidence exists that this is how things were before the financial crisis hit.

1.3 Under way to an ‘employment miracle’? The Agenda myth

In 2005 a recovery began from the prevailing stagnation and recession. Employment rose. If the increase in employment from 2005 had anything to do with implementation of Agenda 2010 then employment growth ought to have been even stronger after the ‘labour market reforms’ than before them. However, as Herzog-Stein et al. (2013: 9) have shown, by comparing the three succeeding growth cycles, this was not the case: ‘German economic growth was one of the lowest in the euro area for a period of ten years. These figures do not bear out the alleged success of supply-side policy, rather its failure.’ The stronger overall employment growth in the years before the great financial crisis in comparison with the growth phase at the end of the 1990s up to 2001, in turn, was due solely to the somewhat longer upturn up to 2008 (Figure 5a).

6. Burda and Hunt (2011: 32) reach a similar conclusion, despite the fact they are rather un-critical with regard to Agenda 2010. According to their calculations employment growth was comparatively halting in the years before the crisis, which they explain by a preference for longer working hours in place of new hires. However, according to these authors, this led to the creation of the working time buffer that helped to stabilise employment during the crisis.
Figure 5  Development of employment and real wages in comparison with the preceding economic cycle, 2005–2009 (beginning of respective business cycle = 100)

Source: Herzog-Stein et al. (2013).
The employment intensity of growth up to 2008 was even a little lower than in the preceding upswing. However, the very unusual stagnation in average real wages during a period of economic growth is striking (Figure 5b). No employment effect of the labour market reforms is therefore discernible. ‘A comparative improvement came only with the active demand-side policy implemented to cope with the crisis in 2008/2009’ (Herzog-Stein et al. 2013) and wage development in the ensuing upturn.

However, the number of registered unemployed fell back sharply after the ‘Hartz reforms’. The labour market statistics offer considerable material for debate, but according to the Federal Employment Agency between 2006 and 2009 switching from employment to unemployment increased to the same extent as switching from unemployment to employment – in other words, overall there was a ‘higher degree of change between employment and unemployment’ or an ‘increasing unemployment dynamic’ (BA 2011: 14f). In Bosch’s (2013) estimation this primarily reflects the greater emphasis on external flexibility in company human resources policy based on fixed-term contracts and temporary work. Any additional employment was therefore supplied more than previously from among the unemployed rather than from newcomers to the labour market. At the same time, older employees retired later because claiming unemployment benefit ‘as part of a passage to early retirement’ (Knuth 2014: 6) had been made almost impossible and they had to avoid or at least mitigate the losses ensuing from the pension reforms.

Also noteworthy in this context is the fact that during the same period the number of long-term unemployed and of recipients of the means-tested ‘unemployment benefit II’ fell only slightly. On the other hand, the number of working poor rose considerably. Switching between unemployment and – frequently insecure – low-income jobs has become much brisker. The unemployed do everything in their power to avoid sliding into the clutches of Hartz IV – a fate to which the adverse changes in the criteria concerning what counts as a reasonable job also condemn them – while those with relatively secure jobs cling on to them for dear life and are willing to make greater concessions with regard to wages in the face of intimidation due to the labour market reforms (Knuth 2014: 6). Lowering unemployed people’s ‘level of expectation’ was one of the express aims of Hartz IV right from the start – and it was achieved. A ‘paradox of employment and poverty’ developed (Arbeitsgruppe Alternative Wirtschaftspolitik [Alternative Economic Policy Working Group] 2013: 20): more employment went hand in hand with a rise in the risk of poverty.
Even among those cheering on the Hartz reforms, some, such as ZEW economist Holger Bonin (2013: 150), have come to the conclusion that ‘the structural improvements brought about by the reorientation of labour market policy alone’ could not explain the rise in employment since 2005: ‘Presumably the strongest support came from the restoration of international competitiveness due to many years of wage moderation ... Furthermore, the emergence of a low-wage sector resulting from the greater employment pressure imposed on the low qualified unemployed subdued the growth of average unit wage costs.’

The sole undisputed effect of the Hartz reforms was thus the pressure on wages and the powerful additional impetus for the low-wage sector. The question remains, what happened to the rising capital income that was a corollary of falling average wages?

1.4 What to do with the money? Symbiosis of core and periphery

In contrast to stagnating and in some places even falling average wages, as already mentioned, profits were rising significantly (Figure 6). The share of profits in GDP rose by 9 percentage points from the beginning of the 2000s to the eve of the crisis. The dynamic of rising inequality was among the strongest in the EU (Schäfer 2012; ILO 2010).

Figure 6  Wages and profits, Germany, 2000–2012 (2000 = 100)
On top of all this, secondary distribution did much less than had previously been the case to attenuate the changes in primary distribution. The reasons for this included the already mentioned tax reforms introduced by the SPD-Greens government, which had considerably lowered the top rate of income tax, together with taxes on capital income and company profits. As a result, inequality shot up during the growth period of 2004–2008: moderate falls in net wages were in sharp contrast to a rise in net capital incomes (incomes of private households from business activities and assets) of around 20 per cent (Brenke 2011).

Due to weak economic growth, however, only a small part of rising profits could be used for domestic investment. Money capital that could not be invested profitably at home had to find investment opportunities beyond domestic manufacturing and consumable services. And it succeeded: numerous deregulations of the financial sector (Huffschmid 2010) had opened the doors for German profits and investment income to participate actively in a booming global financial market bubble and in particular the financing of strong growth driven by partly private, partly public debt in Europe’s deficit countries. German investors were among the largest foreign creditors of the indebted US private sector, and German banks were the largest creditors of partly private, partly public debtors in Greece, Ireland, Portugal and Spain (Bofinger 2010; Lindner 2013).

An analysis by the Bank for International Settlements (Ma and McCau- ley 2013: 8 and 13) comes to the conclusion in relation to Germany that ‘[t]he fruits of wage moderation and labour market reforms were not invested domestically but instead funded the accumulation of net foreign assets’, which on this account did not involve an increase in direct investment, but a massive boom in lending abroad. It was thus only a minor journalistic exaggeration when a commentator in the British Guardian newspaper declared: ‘Germany blew the bubbles that popped up in the rest of Europe’ (Chakrabortty 2011). It stands to reason that the bursting of this bubble resulted in considerable losses among German investors and banks, too (Herzog-Stein et al. 2013).

7. A typical anecdote is given in Martin Lewis’s thrilling account (2010: 90) of the US subprime market boom in the years leading up to the crisis. A hedge fund manager, who believed that the bubble would soon burst and gambled on that eventuality, recalled a conversation with a New York trader at Deutsche Bank (who has now founded his own hedge fund): ‘Whenever we asked him who was buying this junk he only said “Düsseldorf”.’ This evidently meant IKB, which was one of the first victims of the bursting of the speculative bubble in 2007.
The German economy is no more a victim of the euro-zone crisis than of the global financial crisis. On the contrary, it was heavily complicit in preparing the ground for these crises. But how did it manage to overcome the 2008/2009 crisis so rapidly and – to all appearances at least – emerge from it stronger than ever? Curtains up for the real ‘employment miracle’ and its true causes.

### 2. A succession of crises: the mislabelled success model

The fact that Germany is currently being held up as a model can be traced back to the much lauded ‘German employment miracle’ since 2008/2009. The truly astonishing stability on the labour market during the financial crisis was the main condition of the rapid economic recovery from the third quarter of 2009 and the ensuing growth in employment in the following years. On one hand, for the first time in many years stronger economic impetus came from the domestic market; on the other hand, on this basis industrial companies were able to react most quickly to the initial global economic recovery. Furthermore, in combination these developments were such a balm for crisis-hit state budgets that Germany was able to avoid what other – sometimes even less indebted – countries were obliged to do: introduce drastic austerity programmes. Exaggerating only slightly one can say that the growing power of the German government in the EU is largely based on the fact that – albeit to a modest degree – what was forbidden to other countries happened in Germany.

We shall now look in more detail at this successful mislabelling and the paradoxes arising from it in Germany’s recent economic development.

#### 2.1 Rediscovery of traditional strengths

The revival of old virtues began with the sudden – if only temporary – setting aside of numerous neoliberal dogmas. Almost overnight, counter to the relentless mantras that had previously prevailed, extensive economic stimulus programmes were implemented. While in the years before the crisis economic growth was hindered by cuts in public spending which matched lower tax revenues due to tax reforms, the temporary change of course in financial policy in 2008 and, especially, 2009 was a considerable impetus to growth (IMK Arbeitskreis Konjunktur 2011).
The Bundestag elections in 2009 were imminent and any hesitancy about rescuing the ‘real economy’ would have been a political disaster for the government parties in the face of the billions paid out and provided as sureties to banks.

The economic stimulus programmes met with the active cooperation of both the employers’ organisations and the trade unions. Above all at the national level an informal ‘crisis corporatism’ emerged, accompanied by a reactivated social partnership at all levels (see Urban in this volume). The biggest direct effect of this recovery was the prevention of a massive fall in employment in crisis-ridden industry. It is true that considerable numbers of temporary workers were made redundant, but in the labour market overall this fall in employment was more than offset by employment gains in other branches. The reference to temporary work makes it clear, however, that crisis corporatism and reactivated social partnership could include recourse to external flexibility when it came to protecting core workforces. However, the main emphasis was on internal flexibility. This was something new – or rather, new once again. Only a few years beforehand, during the preceding phase of recession and stagnation, many companies had thinned out their workforces to such an extent that they struggled with staff shortages when the economy revived. This was still fresh in the memory and now even considerable productivity losses were accepted in the short term in order to retain skilled staff.

The most striking expression of this about-face was the considerable reduction in per capita working time (OECD 2010). It was based on the mobilisation of various resources of the German employment model, partly new, but primarily traditional strengths, rediscovered in the crisis, which had survived the abandonment and upheavals of the preceding years (for more detail on what follows see Bosch 2011 and Lehndorff 2011). More to the point, since the mid-1990s increasing external flexibility had been one of the core neoliberal dogmas of employment policy; this was thus also one of the guiding principles of the SPD-Green ‘labour market reforms’. What rescued the German labour market in the crisis, however, was precisely the opposite: the reactivation of internal flexibility.

Key to the revival of internal flexibility was short-time working, at levels not seen since the mid-1970s (Herzog-Stein et al. 2010). But other working-time measures contributed as much if not more to reducing the volume of work: the reduction of positive balances on working-time
accounts, which in previous years had sometimes grown considerably; the reduction of overtime; and the use of collective agreements to ensure employment (Bogedan et al. 2011). Above all, the various forms of cuts in individual working time had even more of a massive effect on total volume of work than (collective) short-time working (Fuchs et al. 2010; Groß 2013).

One resource of the German employment model that has received less attention, but which helped to prioritise internal flexibility during the crisis, despite its problems, was the occupational training system, whose strategic significance for both companies and employees in the crisis was never called into question (Voss-Dahm 2011). One direct effect of this was that the unemployment rate among young people initially did not rise sharply and up to 2011 even fell below its level in 2008.

However, the upheavals of the preceding years were also discernible in the crisis. The rapid and sharp fall in temporary work indicated how far the dualisation of the labour market has gone. We have only the brevity of the crisis to thank for the fact that this was not reflected in the overall balance of labour market processes. Not so obvious but just as important is the dualisation in the character of the much praised working-time flexibility. In the crisis it was often found that being able to reduce working-time buffers was of great benefit, although previously these buffers had been built up, especially in the form of high balances on working-time accounts. Thus in the metal industry between 2003 and 2008 average actual working time of full-time employees rose by an hour, while the number of core employees had initially been reduced further (Lehndorff et al. 2010). Many companies clearly found it easier in the crisis to avoid lay-offs because during the previous growth phase they had been able to a considerable extent to avoid new hires by extending working time (Burda and Hunt 2011). Although the reduction in positive balances on working-time accounts that this made possible did not provide them – in contrast especially to short-time working – with direct cost savings the weak employment development and the increasing social inequality in the pre-crisis years had swelled the profit cushion, which – and this was the price that companies had to pay – now had to be sacrificed, at least in part, to economic and social stability.

What happened in 2008 and 2009 can be summed up as follows: while before the crisis the upheavals in the German employment model had contributed actively to the emergence of European and global economic
imbalances the stabilisation of the labour market and the economy during the crisis was owing to a reactivation of precisely those elements of the German model that had survived the neoliberally inspired zeal for demolition. In Germany, at least, this triggered a political dynamic – guided by Merkelian adaptability – that could not easily be dismantled again as economic recovery set in from the second half of 2009.

2.2 Zigzagging in the ‘long shadow of the 2000s’

The new inconsistency was soon reflected in economic developments. As radical and sudden as the descent into crisis was, the upturn as early as the second half of 2009 was every bit as rapid and robust. Many German industrial companies had, as it were, bided their time and kept their motors running. When foreign demand rose again in the third quarter of 2009 qualified workers were still on board, short-time working came to an end, temporary workers who had been released were rehired and empty working-time accounts were restocked. The economy was good to go and many believed that things could continue as they had been before the crisis.

But it wasn’t going to be so easy. In spring 2010 the great crisis of the euro zone broke out and the measures taken to combat it – mainly at the urging of the German government – turned a tractable regional disaster into a conflagration. More and more of the euro zone was gradually driven into recession again, including countries previously considered neoliberal success stories, such as the Netherlands.

The export world champion could not remain unscathed by all this. As can be seen in Figure 1 the current account surplus in relation to the euro countries, first with the global financial crisis and then once more with the outbreak of the euro zone crisis fell significantly (on what follows see IMK-Arbeitskreis Wirtschaftspolitik 2013; IMK/OFCE/WIFO 2013; Deutsche Bundesbank 2013a). However, initially it was possible to make up for this loss by means of export growth, especially with Asia and the Americas, an uncertain workaround not least because the recession in Europe also affected the global economy. Nor should it be forgotten that the euro zone is, with a share of just under 40 per cent, still the largest export market for the German economy, dwarfing those of the United States (8 per cent) and China (6 per cent).
It could therefore come as no surprise that, after the rapid upturn in 2010/2011, growth rates fell again in Germany, too. However, the pattern of Germany’s economic development since 2009 has not entirely matched the one familiar from before the crisis. Let us recall that, as already mentioned, between 2001 and 2008 around three-quarters of the relatively low growth of around 1.2 per cent a year, on average, was based on exports and only a quarter on domestic demand. In three out of the four years after 2009, by contrast, domestic demand contributed more to growth than the export surplus (Table 2).

If balanced economic development is to be achieved in Germany and Europe, however, this shift is still much too weak and the import deficit remains high. Nevertheless, the stabilising influence of consumer demand on the domestic market should not be underestimated. On top of that comes public-sector demand that, although weak, at least does not play a negative role. Here a positive sum game comes into play that is prohibited for other countries with reference to the alleged need to reduce new borrowing right away: because of the increasing employment and rising wages and salaries tax revenues are also increasing. The positive sum game is also supported by a kind of crisis dividend, namely the interest benefits arising for the German budget from the euro crisis. The so-called ‘safe haven effect’ made German government bonds such a desirable form of investment in the wake of the euro crisis that their average interest rates have fallen from just under 5 per cent before the

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**Table 2** Development of GDP and the growth contributions of its components, Germany, 2009–2013

<table>
<thead>
<tr>
<th>Year</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP</td>
<td>-4.7</td>
<td>+3.7</td>
<td>+3.3</td>
<td>+0.7</td>
<td>+0.4</td>
<td>+1.8</td>
</tr>
</tbody>
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*Growth contributions of structural components (ppt):*

- Exports: -2.9, +1.5, +0.7, +0.9, -0.2, -0.5
- Domestic demand: -1.8, +2.3, +2.6, -0.3, +0.6, +2.3
- Private households: -0.1, +0.4, +1.3, +0.4, +0.5, +0.9
- State: +0.5, +0.3, +0.2, +0.2, +0.1, +0.2
- Capital investments: -1.9, +1.0, +1.2, -0.4, -0.1, +1.2

*Note:* *2014 forecast.*
*Source:* IMK.
crisis to 3 per cent in 2012. This accelerated a tendency observed since
the late 1990s, namely that Germany, despite increasing public debt, has
had to devote an ever smaller portion of public spending to interest pay-
ments: the net interest burden in 2012 was below 2 per cent, a low value
last seen in the early 1980s (Bundesbank 2013b: 53). The German state
is now borrowing, roughly speaking, at no cost, in real terms. One can
scarcely do better out of an alleged ‘public debt crisis’.

Nevertheless, ‘the long shadow of the 2000s’ (Bispinck 2012) still lies on
the labour market. The proportion of employees and households on low
incomes was still at the pre-crisis level in 2011 (and, depending on the
method of calculation, even a little higher; Kalina and Weinkopf 2013).
The number of workers in temporary employment exceeded the pre-
crisis peak as early as 2010 (BAP 2013); working time has also returned
to the pre-crisis level (Franz and Lehndorff 2012). The number of those
in work continues to rise and even the number of full-time employees
rose again, but the significance of precarious employment has not di-
minished. All in all, Germany’s economic and social development since
2009 can best be described as zigzagging. This can also be discerned in
the development of average real wages, which have risen overall since
2009, but from time to time have also fallen slightly (Federal Statistical
Office 2014). The shifts in emphasis we have described are still too tenta-
tive to enable the German economy to give a powerful impetus to help
overcome the eurozone crisis.

However, it is important not to overlook the paradox of development:
the fact that private household demand since 2008 has been able gener-
ally to play a stabilising role, in contrast to before the crisis, is largely
due to the overall more favourable development of wages. Because of
the crisis and the broad public criticism to which it has given rise of the
increasing social inequality in Germany the trade unions are in a some-
what better position with regard to wage policy. The positive effects thus
triggered may in future be enhanced by the new labour market regula-
tions introduced by the new German government (notwithstanding the
relevant reservations: at least the further downward wage drift should be
halted). However, precisely that which has helped Germany has dictato-
rially been refused to the crisis countries.

The paradox of development since 2008 can be summed up as follows:
the comparatively positive economic development is not to be attrib-
uted to ‘Agenda 2010’, but rather to the first attempts at limiting the
damage caused by the Agenda ‘reforms’. The growing trade union influence over wage development has played an important role here.

A bitter irony follows from this: the shift of emphasis, which caused a break in the uninterrupted continuation of the Agenda policy, not only makes it easier for German policy to make it appear at home that the cuts in government spending are, for the time being, less of a priority than elsewhere, but also – and this is perhaps their most important effect – it favours the presentation of Germany both at home and abroad as a model for Europe, justifying the German government’s leading role in the implementation of the EU’s fiscal dictatorship. The image of potentially the biggest victim of other countries’ lack of budgetary discipline that the German government takes advantage of at the same time consolidates the domestic political base. This is a ‘trick’ likely to send any spin doctor into rapture, but it is fraught with pitfalls. The bogus labelling can continue yet awhile. However, a policy that, while tactically flexible, still adheres unswervingly to neoliberalism will get caught up in its contradictions.

3. Outlook: shifting coordinates

The limits of German economic policy to date are not initially discernible where it has been criticised most sharply, especially abroad, namely its export dependency. It may be that its unsustainability has been made more evident to a broader public in Germany due to the consequences of the so-called ‘debt brake’ and ‘fiscal compact’. There is a lot to be said for the assumption that in the short and medium term, given increasing private wealth, public poverty in Germany will increasingly come to be regarded as unacceptable. Thus the proportion of public investment in GDP, which in any case is far below the EU average, had fallen to its lowest ever level by 2007, at 1.4 per cent, to which it returned after rising slightly up to 2012. Because the bulk of gross investment consists of replacement investment, net public investment since 2003 has been negative, in contrast to more than 2 per cent in 1980 and current comparable values of at least 1 per cent in the United States and France (Priewe and Rietzler 2010). The export world champions are thus preparing to meet the challenges of the future with a shrinking public capital stock.

Over half of public investment is carried out by municipalities, where the woeful state of public finances is most evident. According to a survey by
the German Institute of Urban Affairs (DIFU) cities and municipalities estimate their investment gap at around 100 billion euros (KfW 2012). The statistics on public investment include ‘only’ capital investments, not investment in people. However, the future development of the potential of the German economy and society depends on a viable education and training system and also all the social services that make it possible for qualified women to participate in the labour market. Germany is to be found in the lower midrange in the EU with regard to spending on such labour-intensive services. This becomes particularly clear from the OECD’s comparison of the proportion of public spending devoted to education and training, as well as child care, which amounts to 5.2 per cent in Germany in comparison with 9.6 per cent in Denmark and 7.3 per cent in France.

The German government and the great majority of the Bundestag have severely encumbered themselves with the ‘debt brake’ and played a decisive role in bringing it about that an even narrower constitutional limit was imposed on public debt across the EU. Lest we forget that all this was really done deliberately Olaf Scholz, SPD mayor of Hamburg and former minister in the federal government, in an interview with FAZ (27.2.2012)

Figure 7 Public spending on education/training and on child care as a proportion of GDP, selected EU countries, 2007

declared that: ‘No one really understands yet what a dramatic paradigm change we made with the debt brake. The much heralded “lean state” will come about of its own accord.’ There is much evidence to suggest that turning away from this policy approach will require even more of a struggle than the one that made possible the recent tentative efforts to mitigate the damage caused on the labour market by Agenda 2010.

Germany’s economy and society have the potential to play a positive role in Europe. But this will be possible only in conjunction with fundamental reform – in the true meaning of the word – of the German employment model. Particularly important elements of such reform would be:

- A boost for public investment and services in conjunction with a gender-policy modernisation of the welfare state and consistent progress with the new energy policy (the so-called ‘Energiewende’) (DIW 2013). Such a restructuring would trigger a positive sum game with growth and self-financing effects and at the same time help both the economy and society to meet the challenges of demographic change.

- A substantial increase in taxes on profits, higher incomes and, in particular, capital (Schratzenstaller 2011), without which such a change of course simply won’t be possible. A little noticed aspect of such a tax reform would be to strengthen the social compensation mechanisms that, as already mentioned, are a tacit condition of the proper functioning of the ‘wage formula’ on which the industrial trade unions base their collective bargaining policy.

- Support for the weakened collective bargaining system not only by means of a statutory minimum wage, but also – just as important – by a fresh approach to declaring collective agreements generally binding, as well as equal pay for temporary work and making the awarding of public contracts conditional on adherence to (generally binding) collective agreements (Schulten and Bispinck 2013; Weinkopf and Vanselow 2008).

- Re-regulation of the labour market by an ‘extension of the scope of protection of unemployment insurance’; linking the notion of ‘reasonable’ employment conditions to be accepted by job seekers to the criterion of payment of collectively agreed or customary local wages; the re-regulation of fixed-term employment, temporary employment and employment contracts; and the abolition of special regulations for mini-jobs (Bäcker et al. 2011; Bosch 2012).
This short overview already shows that, despite the first steps in the right direction taken by the present government, the bulk of a social reform of the German employment model will be the object of future political debate. This debate will be decisive for Europe: more social balance in the biggest European economy would reduce the constant pressure to lower wages and to dismantle the welfare state on the other countries in the region and in particular in the monetary union. Germany could become the engine of a socially and environmentally more sustainable reorientation of the EU. German industry would be in a position to develop its strengths in the area of environmental renewal, but besides economic incentives strong regulations are needed (especially with regard to the Energiewende) to encourage it to take on such a pioneering role. This policy can count on comparatively broad agreement in German society with regard to more sustainable use of natural resources. Even in the short term it would be possible to use a portion of the current account surplus and the fiscal crisis dividend for anti-cyclical government spending – that is, public investments in Germany and other EU countries – by means of which the strongest European economy could pull other parts of Europe along with it as an economic engine (Troost and Paus 2013). This would also represent a major gain in terms of democracy in the EU and its member states.

But this is a hope for the future. In the meantime, the German government is dictating a ‘reform programme’ based on cuts in social services to other countries with the authority gained by having already gone through it itself or at least – in the case of the ‘debt brake’ – by having introduced it and, as a result, doing better than everyone else. All this is based on a grand illusion: the mistaken belief that by expanding the alleged virtues of German stability it will be possible to continue to pursue the original business model of German capitalism in the euro zone. The interests behind this policy are powerful, but its prospects of success are weak.
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OECD Social Expenditure Database. www.oecd.org/els/social/expenditure


All links were checked on 06.08.2014.