

The German Growth Model

The role of manufacturing and industrial policy

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Mexico, October 29, 2013

Overview

- **Germany's economic policy**
- **Limited industrial policy**
- **The reforms of Agenda 2010 (in 2003)**
- **Economic and social effects**
- **The German growth model**
- **The role of manufacturing**
- **An alternative growth model**

Germany's changing economic governance

1950-1965: Ordo-liberalism; social market economy; fiscal surplus;

1965-1975: keynesianism; deficit spending; monetary policy aiming at price stability

1975-1998: dominant monetary policy vs. deficit spending (unification)

1998-today: Eurozone member state

Germany's limited industrial policy

- The obsession with competitiveness
- Structural undervaluation within fixed and flexible exchange rate regimes
- Sectoral effects of cyclical policies (interest rate – construction)
- Limited sectoral policies (agriculture, coal and steel, case by case rescues, R&D)
- Limits by exclusive EU competence

Germany's industrial policy after 1990

- The destruction of the East German industry by overvaluation and structural failures
- Rising structural unemployment
- Conflicting theories: Competition and underdevelopment of the service sector vs. Wrong macroeconomic policies
- The Agenda reforms
- The crisis of 2009 and anti-crisis policies

Germany's reforms: Farewell to corporatism?

- Declining membership of unions and employers associations
- Decentralization of collective bargaining
- Changing corporate governance
- Disentangling „Deutschland AG“
- Privatization
- Slimming the welfare state
- The reforms of Agenda 2010

Germany's Economy: Laggard or Miracle?

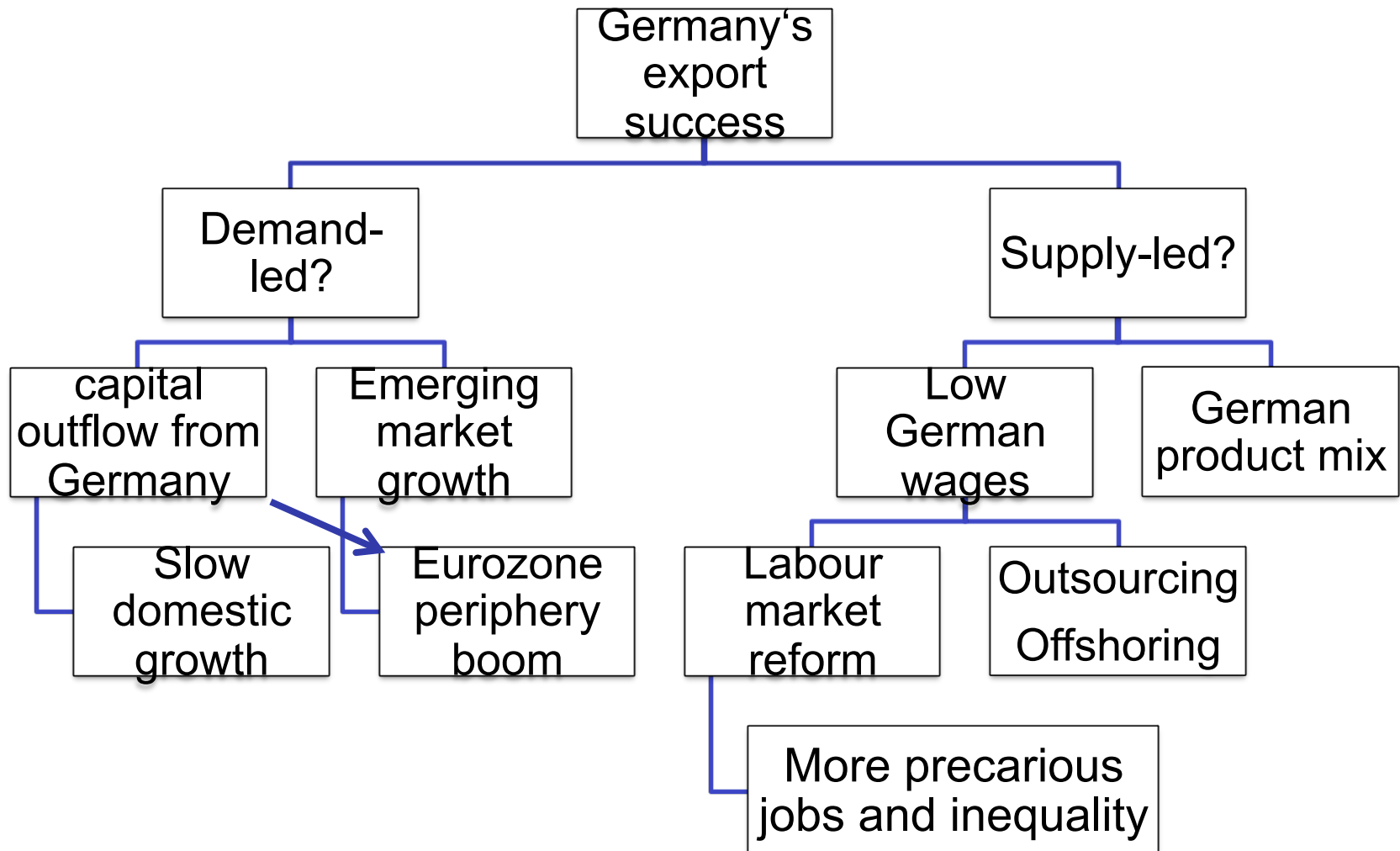
Hype 1 (The Laggard): 2000-2006

- Slow productivity growth
- Persistent unemployment

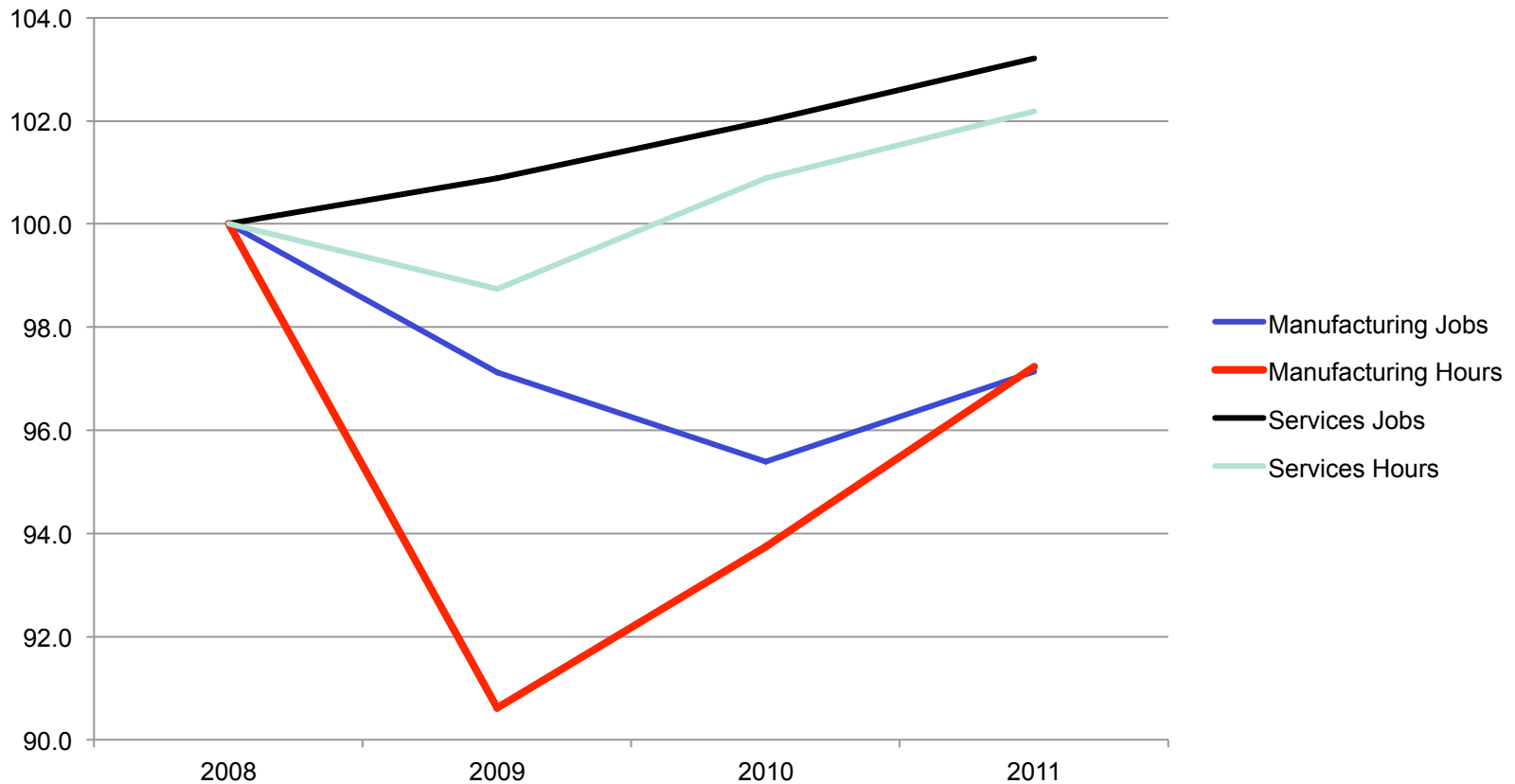
Hype 2 (The Miracle): 2006-2008/2010-?

- Export-led growth
- Still slow productivity growth
- Declining unemployment

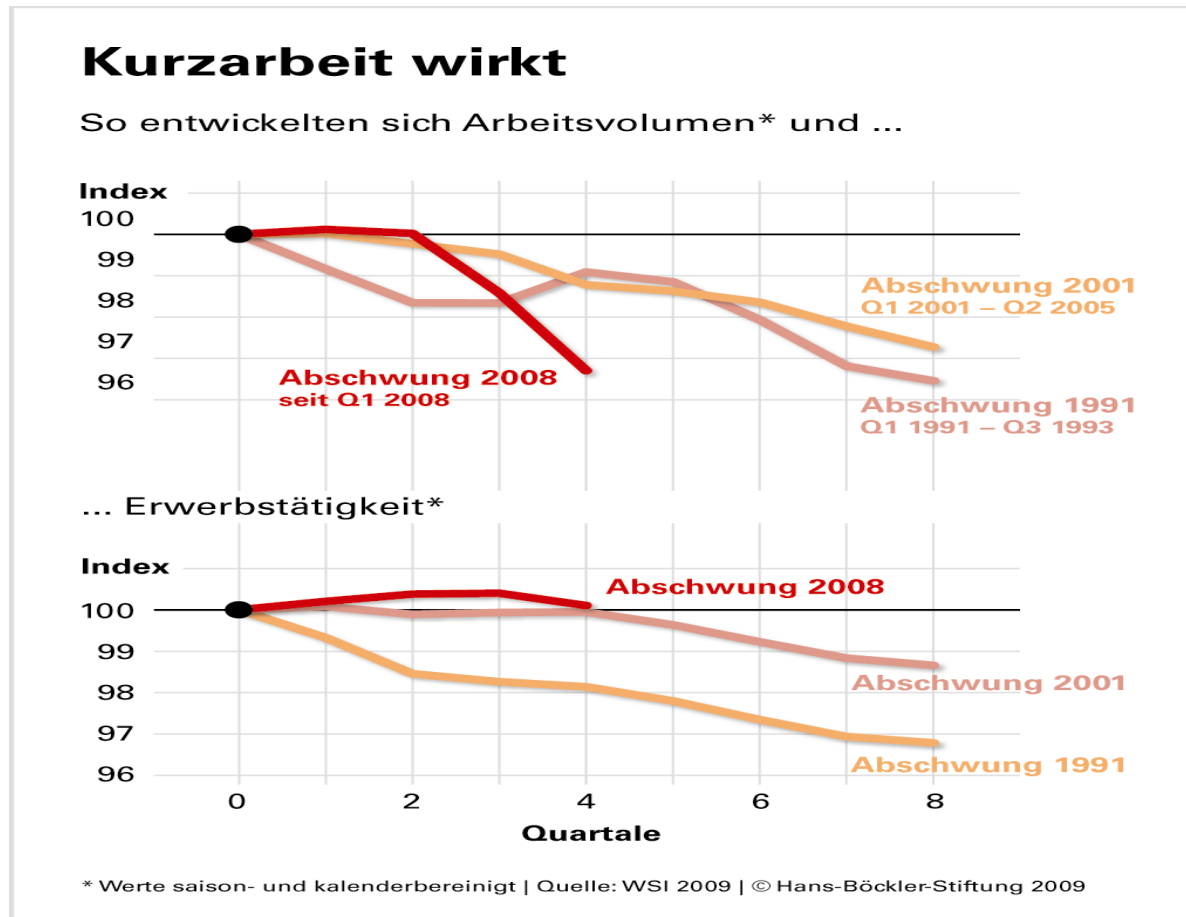
Germany's export success different interpretations



Manufacturing during the great recession



Short-Time Work Works

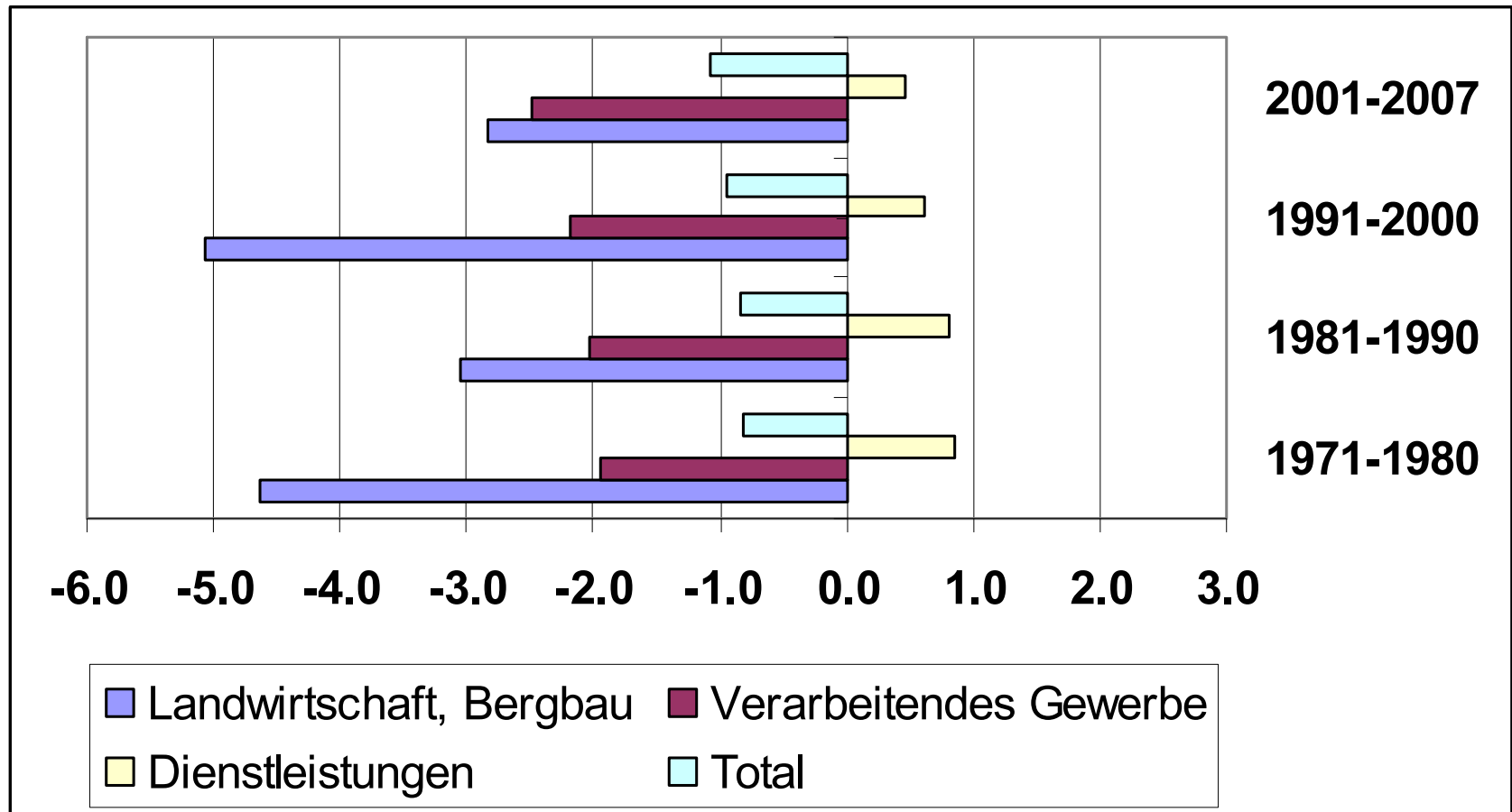


The exaggerated role of manufacturing

- **Manufacturing output is highly cyclical (strong decline in 2009, strong recovery in 2010/11)**
- **Share of manufacturing is declining**
- **80% of growth since 1991 in services**
- **German long-term growth slower than in service economies like U.S. or UK**
- **Services create value, too**
- **German service sector is the laggard**

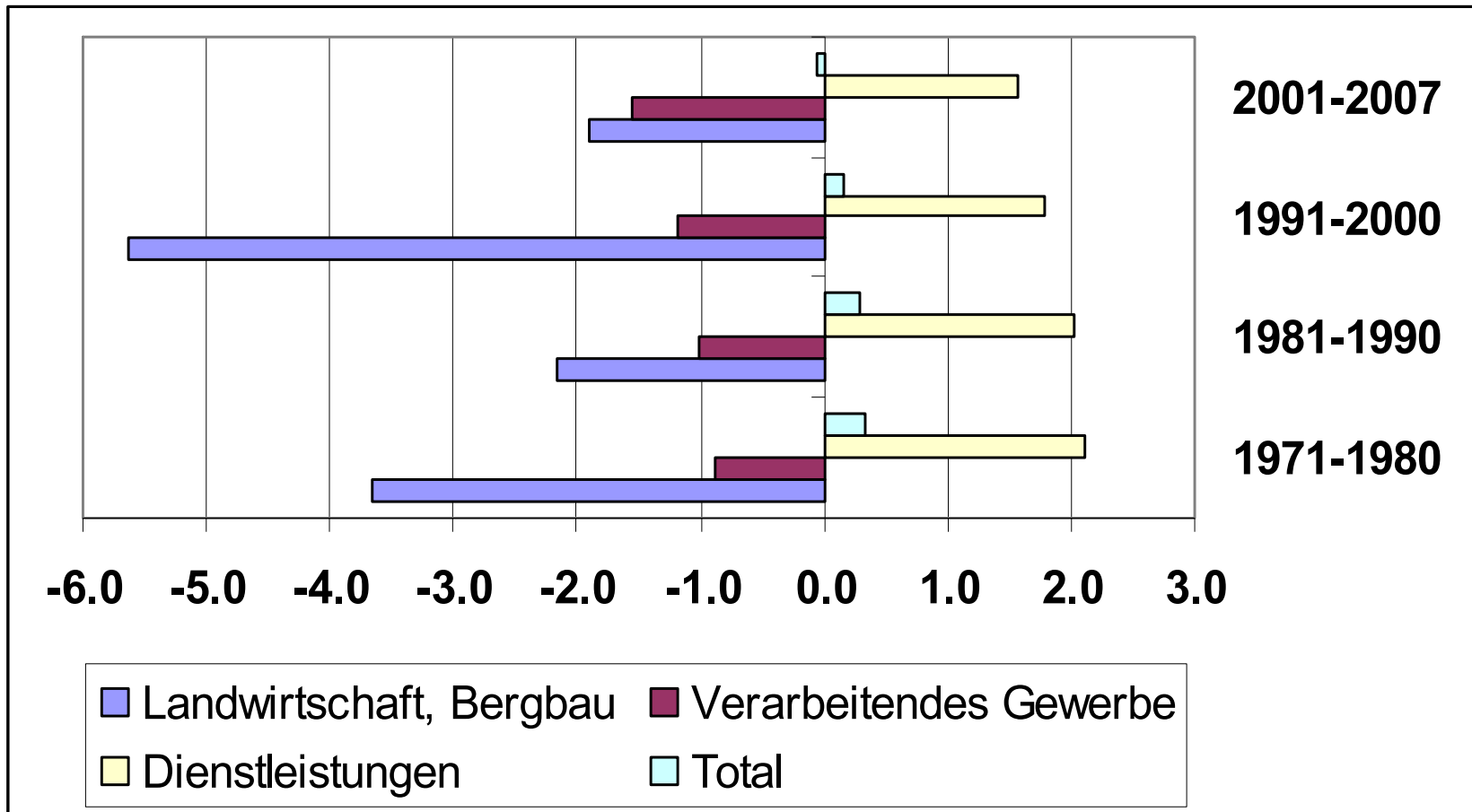
Employment by sector

(Hours, change in %)

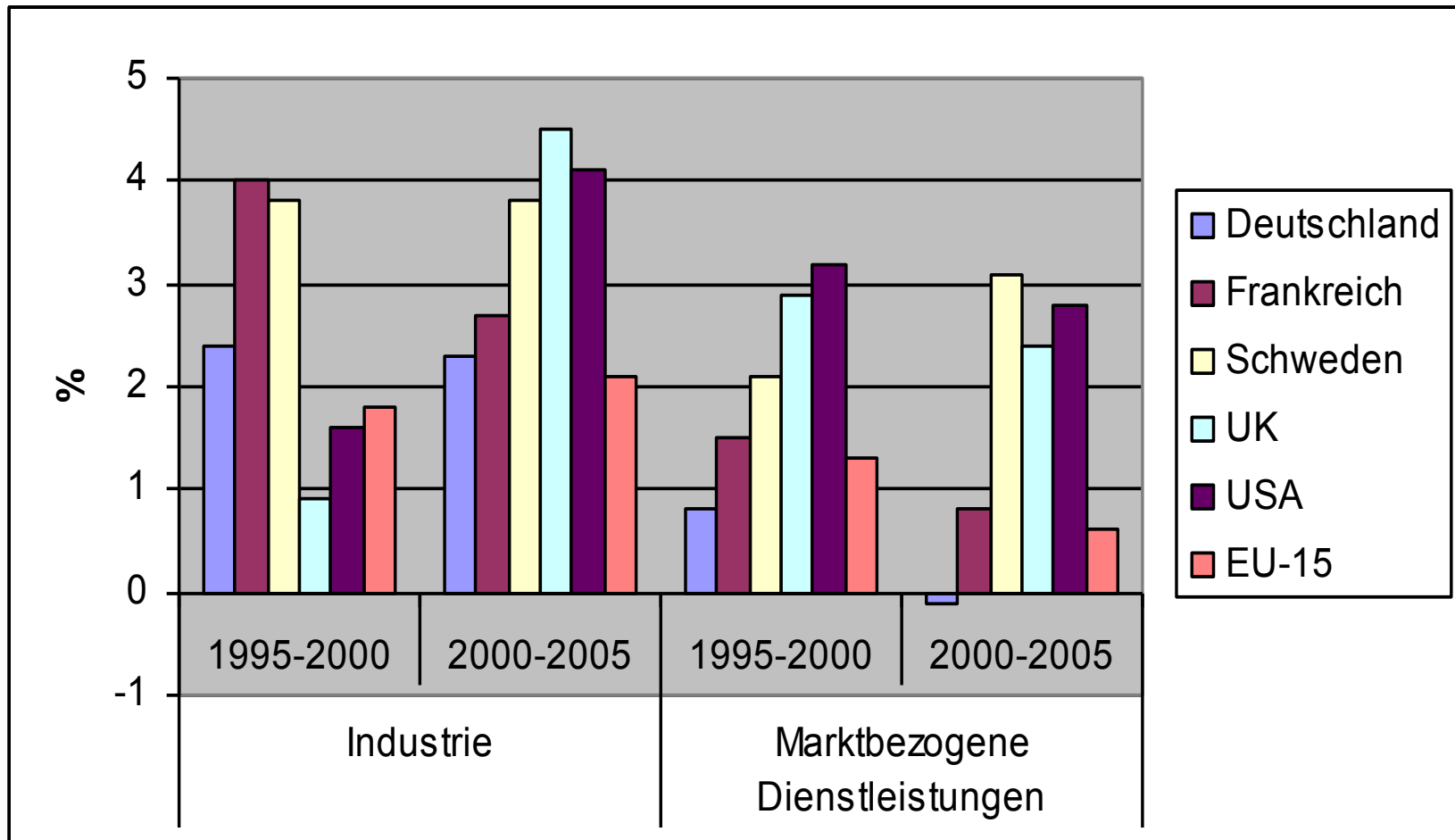


Employment by sector

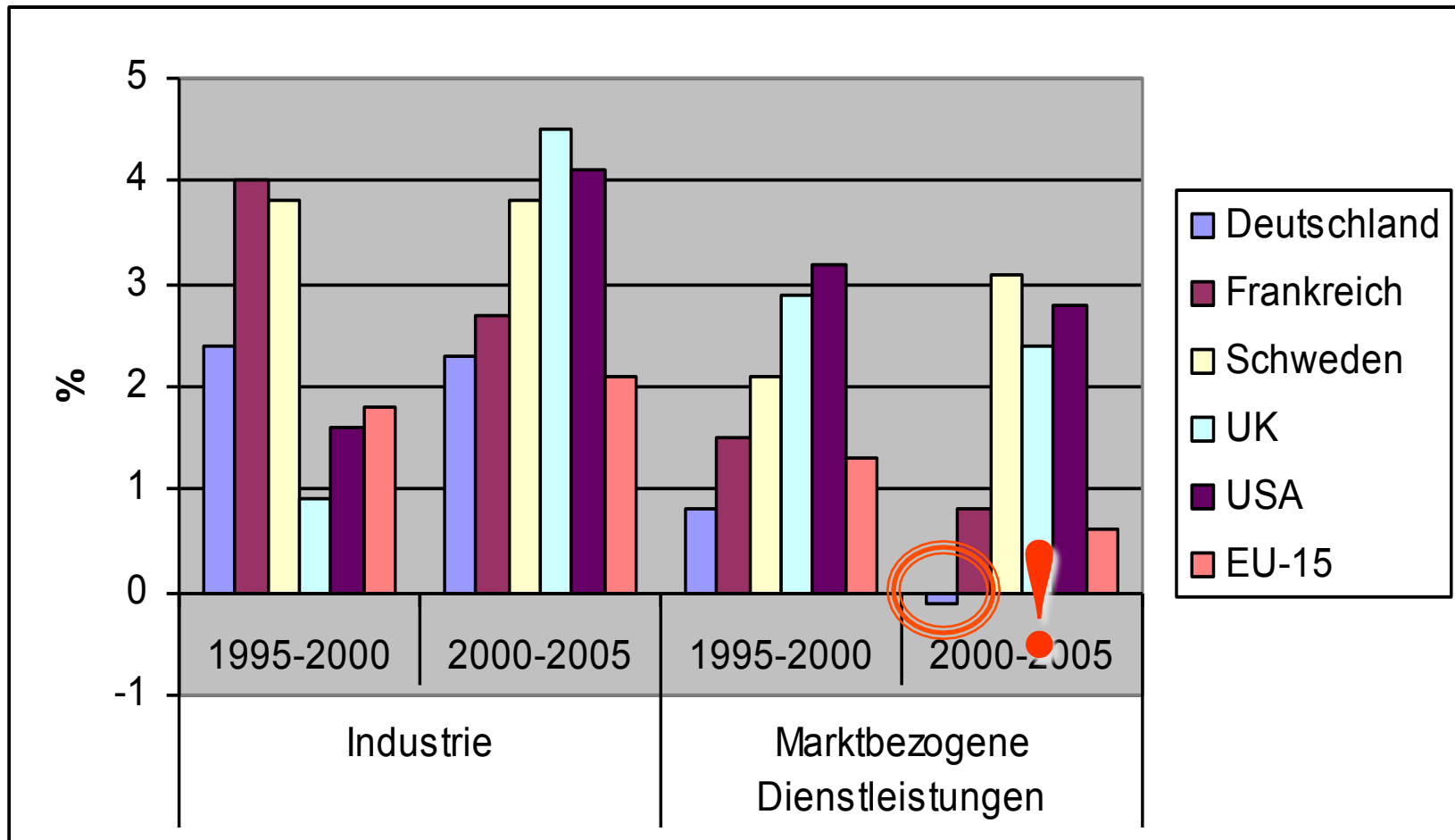
(Persons, change in %)



Slow productivity growth



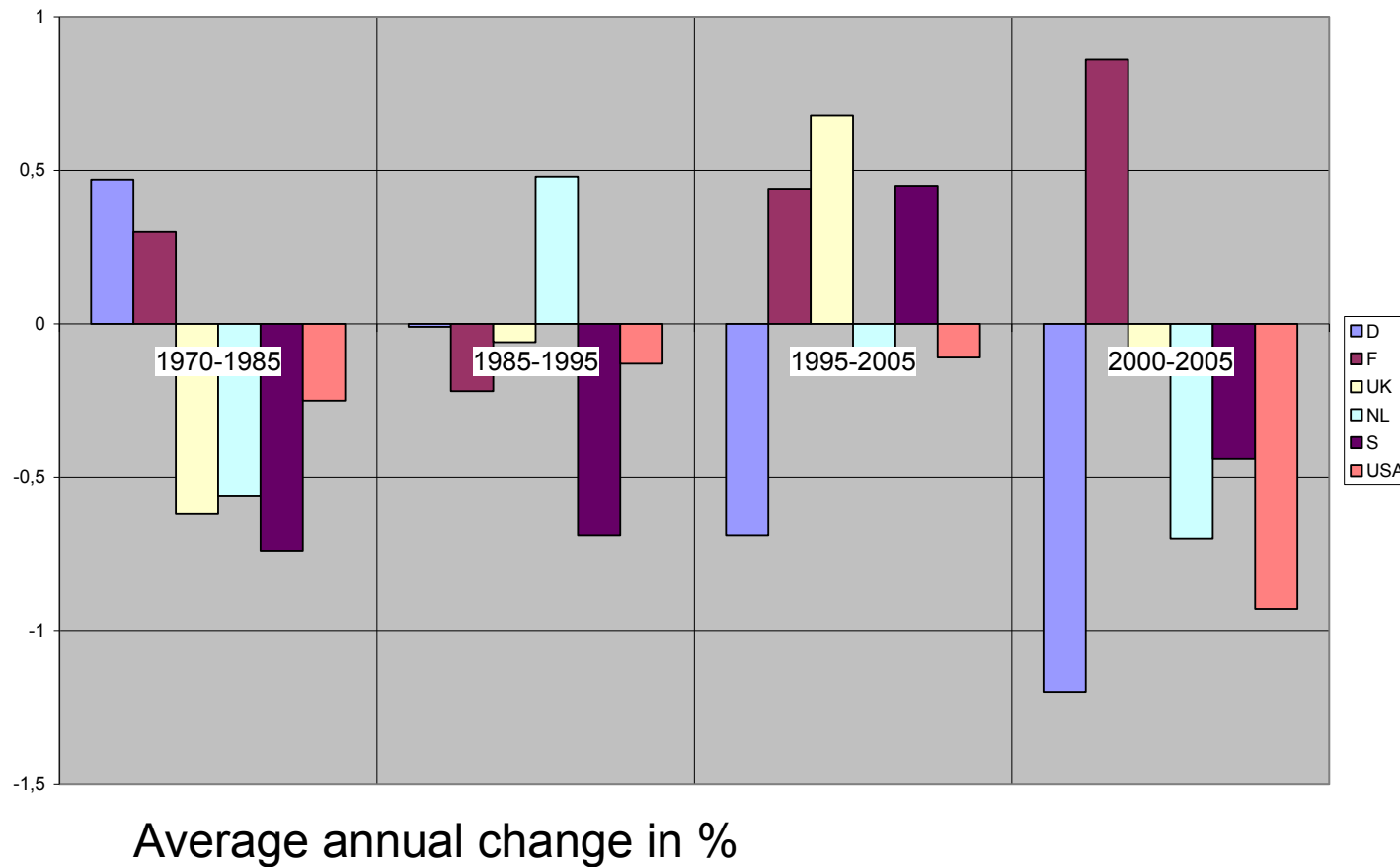
Slow productivity growth in the service sector



Germany's price: Rising inequality

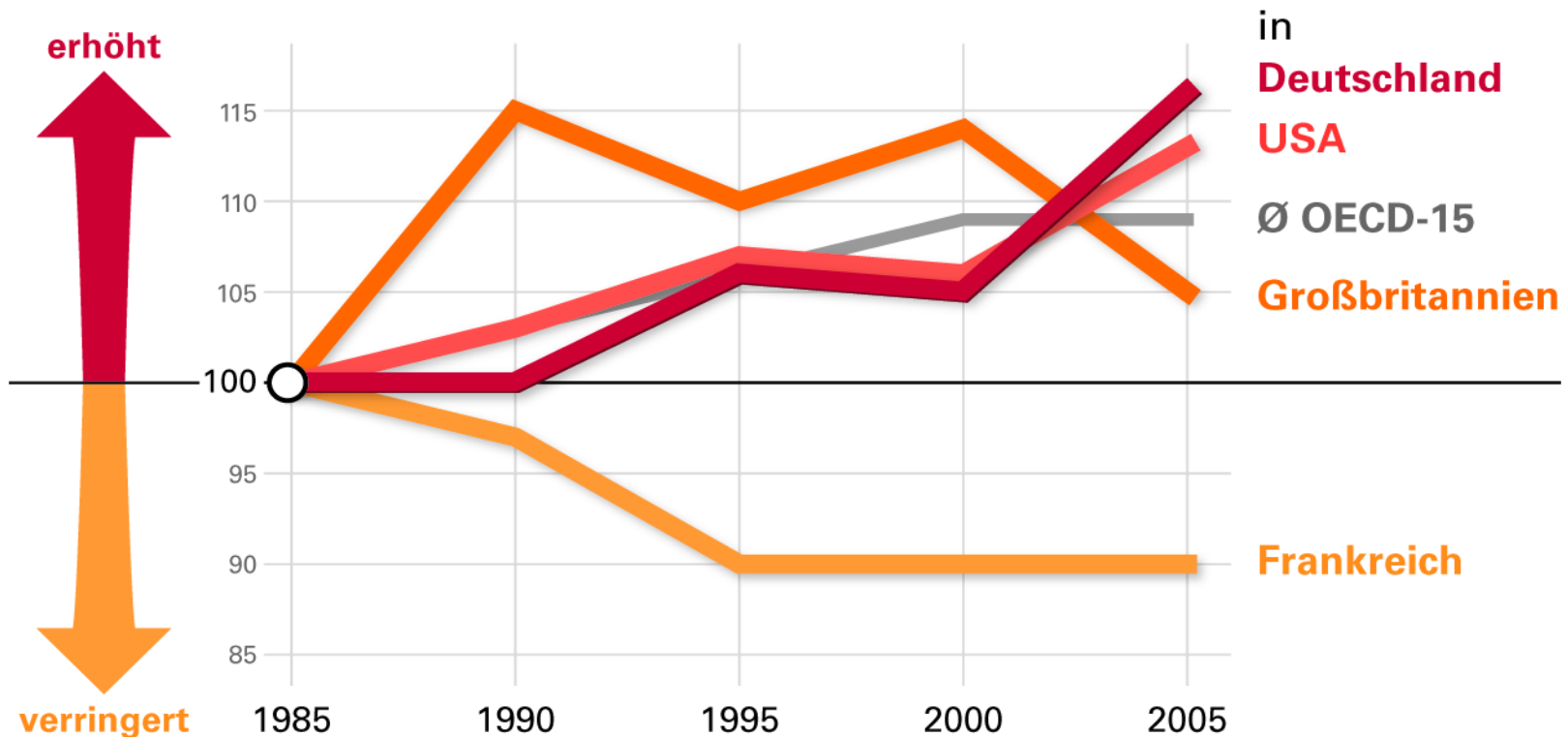
- **Fastest rise of inequality within OECD**
- **Stagnating real wages**
- **Declining wage share of GDP**
- **Growing wage dispersion**
- **The rich get wealthier**
- **The German savings glut**

Declining wage shares – above all in Germany



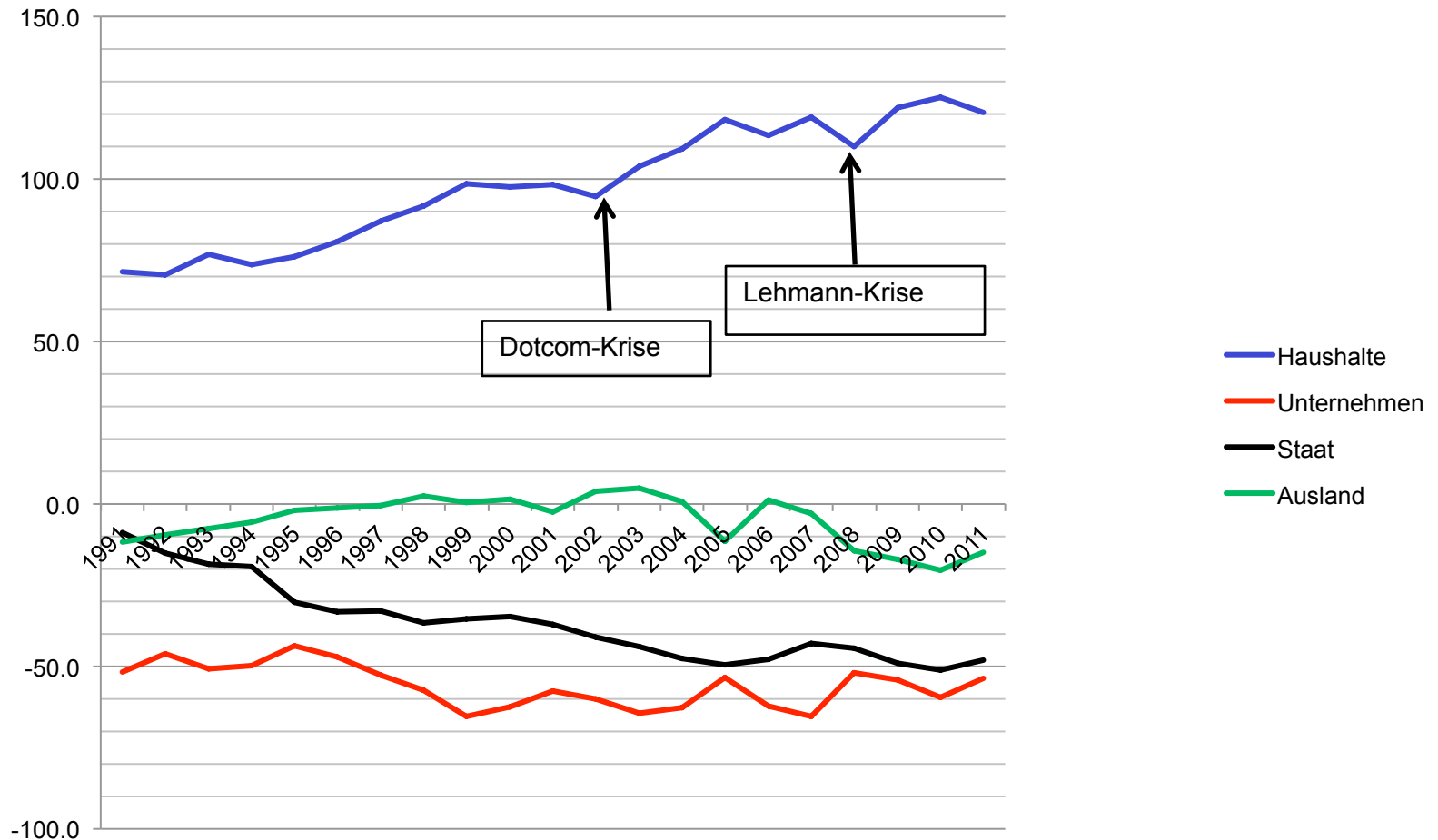
Germany: Growing unequal faster

Seit 1985 hat sich die Ungleichheit der verfügbaren Einkommen...



Veränderung des Gini-Koeffizienten für Ungleichheit, Index 1985=100; Quelle: OECD 2009 | © Hans-Böckler-Stiftung 2010

Net monetary assets of households, corporations, government and r.o.w. (in percent of gdp in Germany 1991-2012)



Old Problems and New Prospects

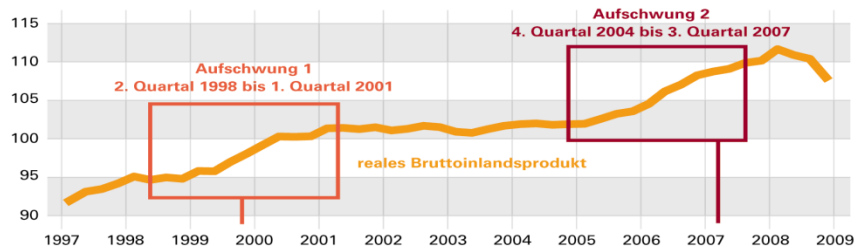
- **Obsessive export orientation**
- **Losing the wealth (net investment position)**
- **Lack of domestic consumption and investment**
- **Social growth through investment in education, health, care, and green growth**
- **Stable demand through redistribution**

**Thanks for your
attention!**

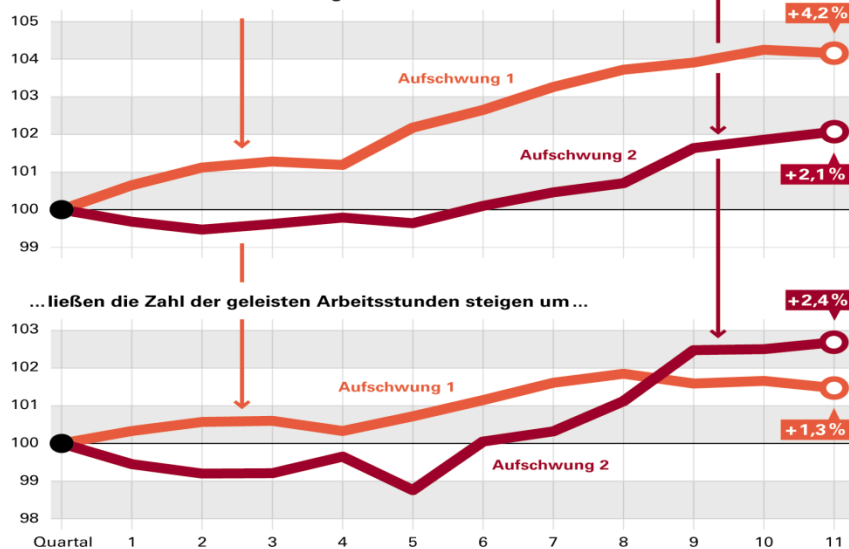
The employment effects of labour market reforms

Weniger Jobs nach Arbeitsmarktreformen

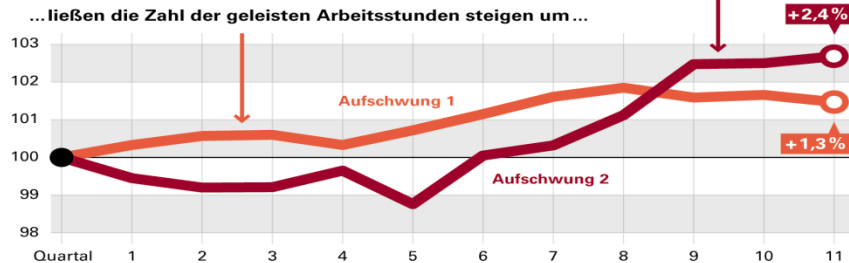
Gleiche BIP-Zuwächse in den Aufschwüngen vor und nach den Hartz-Reformen ...



... ließen die Zahl der Stellen steigen um ...



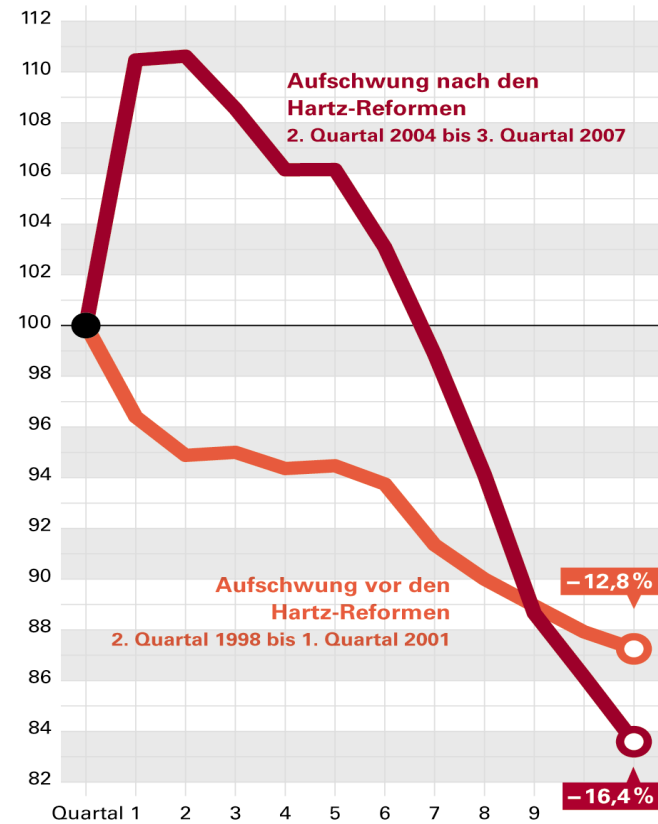
... ließen die Zahl der geleisteten Arbeitsstunden steigen um ...



Quelle: Horn 2011 | © Hans-Böckler-Stiftung 2011

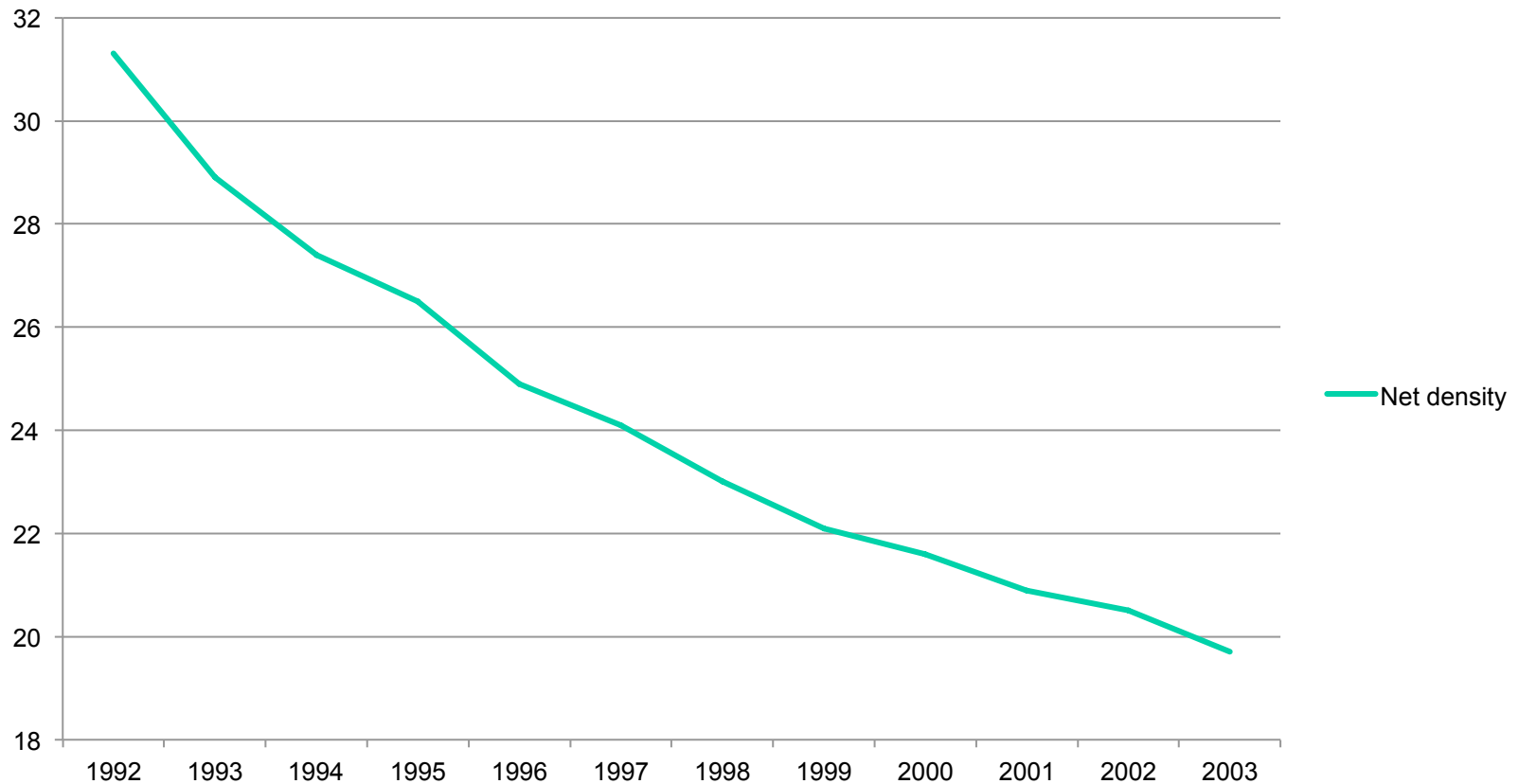
Rückgang mit Verzögerung

Die Arbeitslosigkeit entwickelt sich im ...

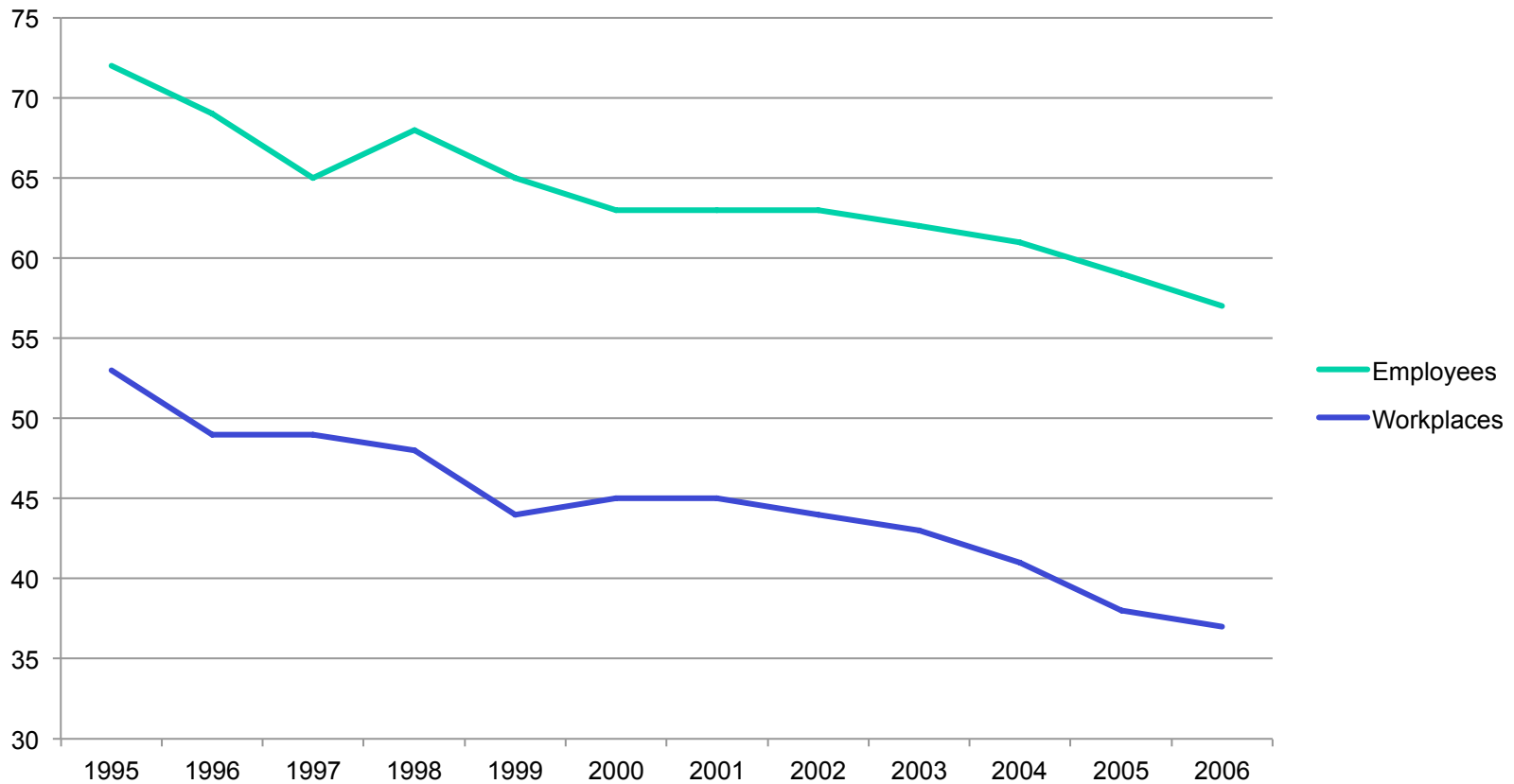


Quelle: Horn 2011 | © Hans-Böckler-Stiftung 2011

Declining density of union membership



Declining coverage of collective bargaining agreements

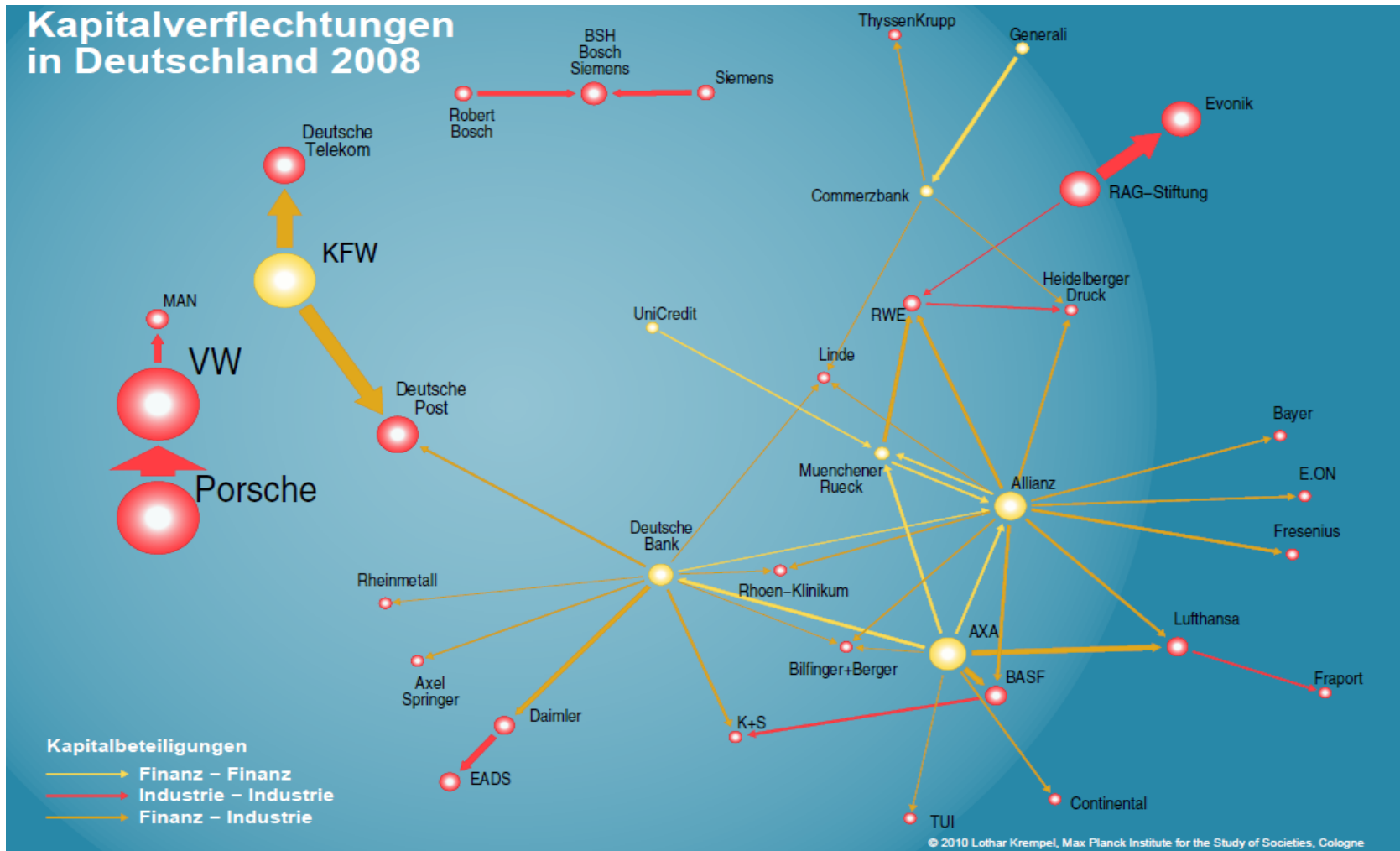


Cross shareholdings in Germany 1996

Kapitalverflechtungen in Deutschland 1996



Cross shareholdings in Germany 2008



Germany's economic performance before and after the reforms

Indicators	Dimension	Before Reform 1995-2003	After Reform 2003-2011
Growth	Average annual rate of growth	1.95%	2.34%
Investment	Average ratio (in% of GDP)	21%	18%
Productivity	Average annual rate of growth	0.97%	0.72%
Real wage growth	Average annual rate of growth	>0 ^a	-0.8% ^b
Unit labour costs	Average annual rate of growth	0.29%	0.45%
Unemployment	Average ratio	10.3%	9.1%
Wage share	Average ratio	54%	51% ^c
Labour market flexibility	Average ratio of entries into and exits from employment	36.4 ^d	40.6 ^e

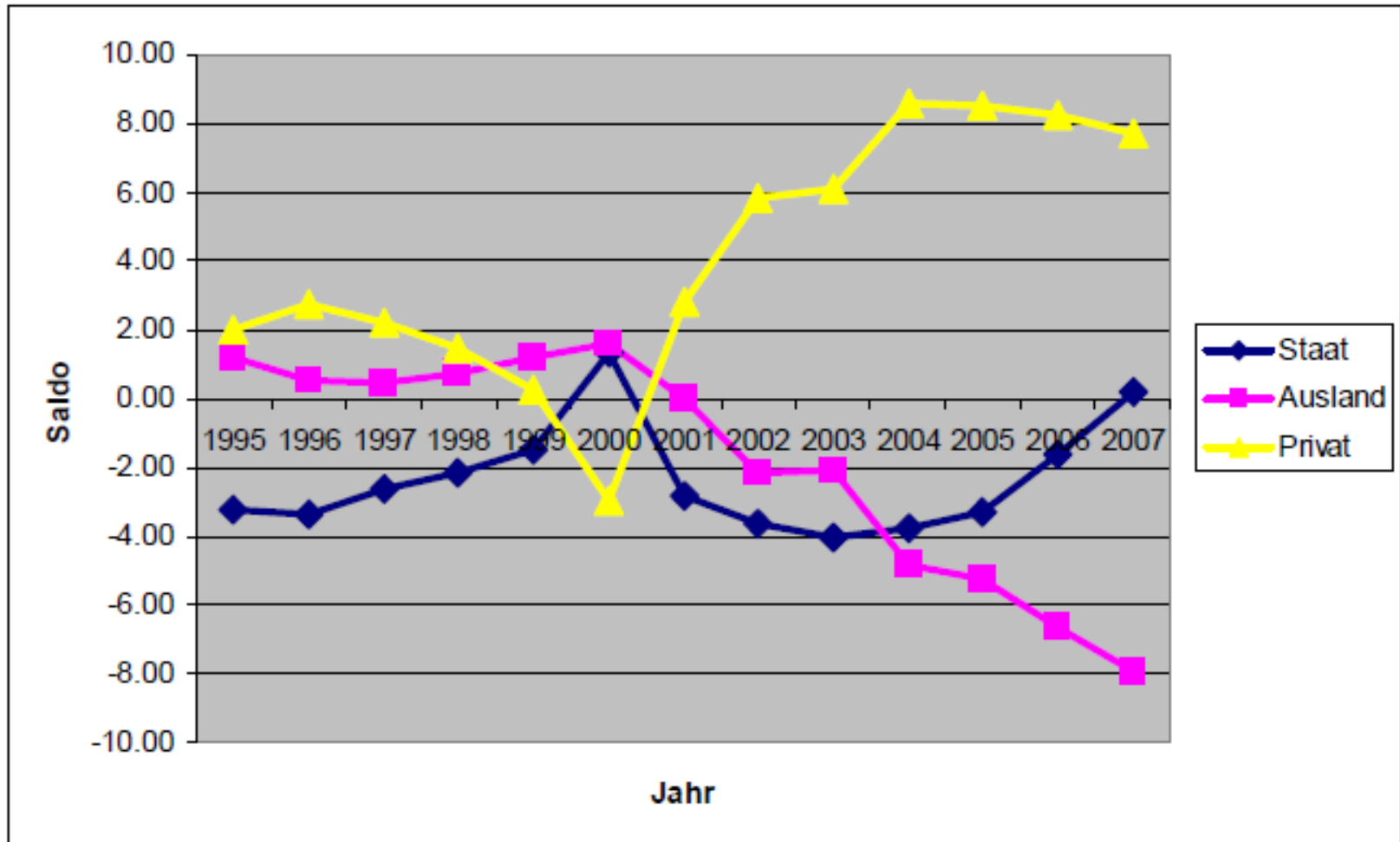
Germany's economic performance before and after the reforms



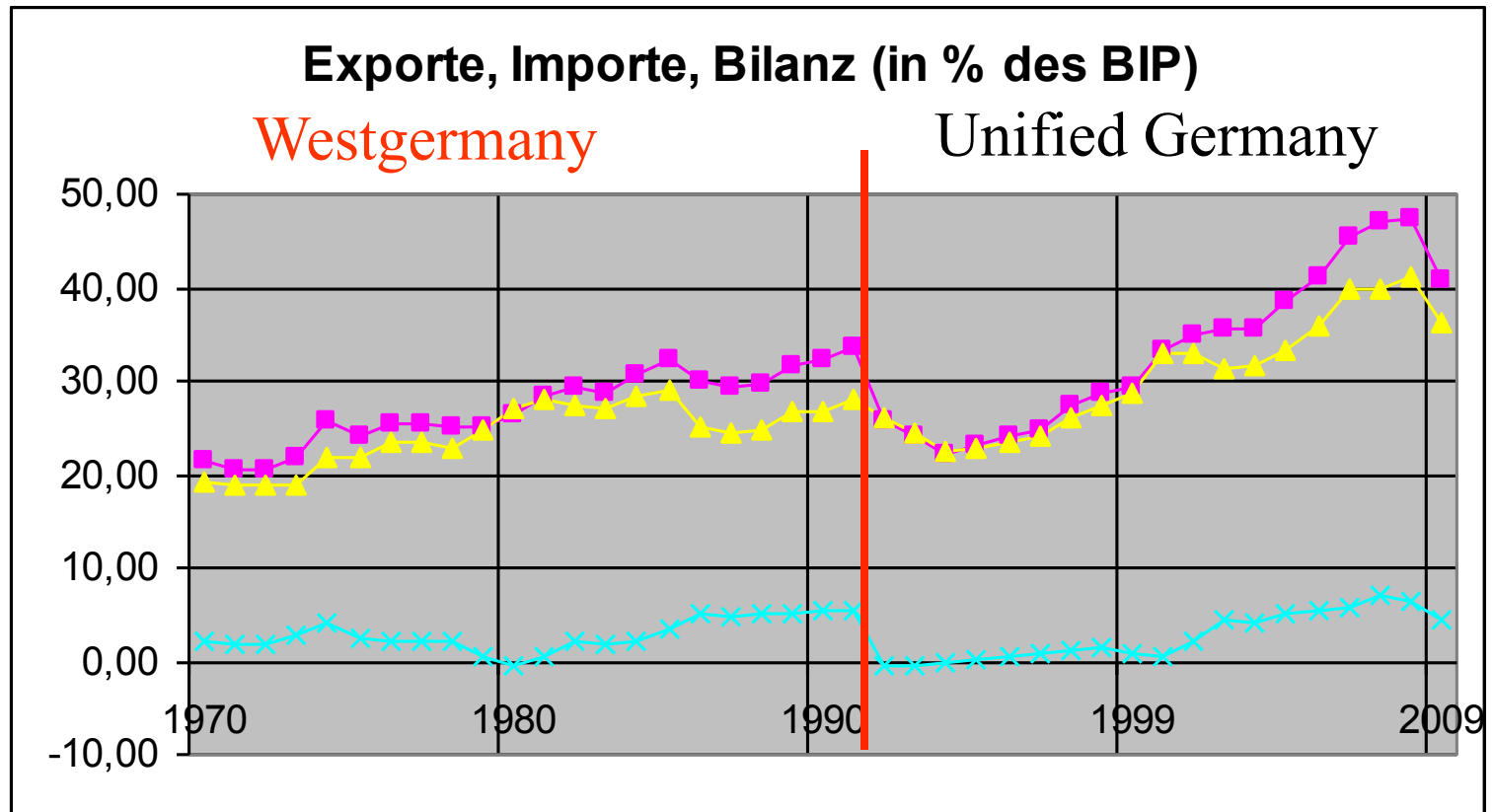
Indicators	Dimension	Before Reform 1995-2003	After Reform 2003-2011
Employment	Additional labor force	1.754.000	831.000
Employment	Additional Jobs	1.064.000	2.323.000
Hours worked	Average annual amount	57,068	56,581
Export growth	Average annual rate of growth	9%	7%
Export surplus (Current account in% of GDP)	Average ratio	-1%	5% ^c
Budget deficit (in% of GDP)	Average ratio	2.1%	1.9%
Government debt (in% of GDP)	Average ratio	59%	69% ^c
Income distribution	Gini-Koeffizient	0.27 (1998)	0.31 (2005)

Sector accounts in Germany

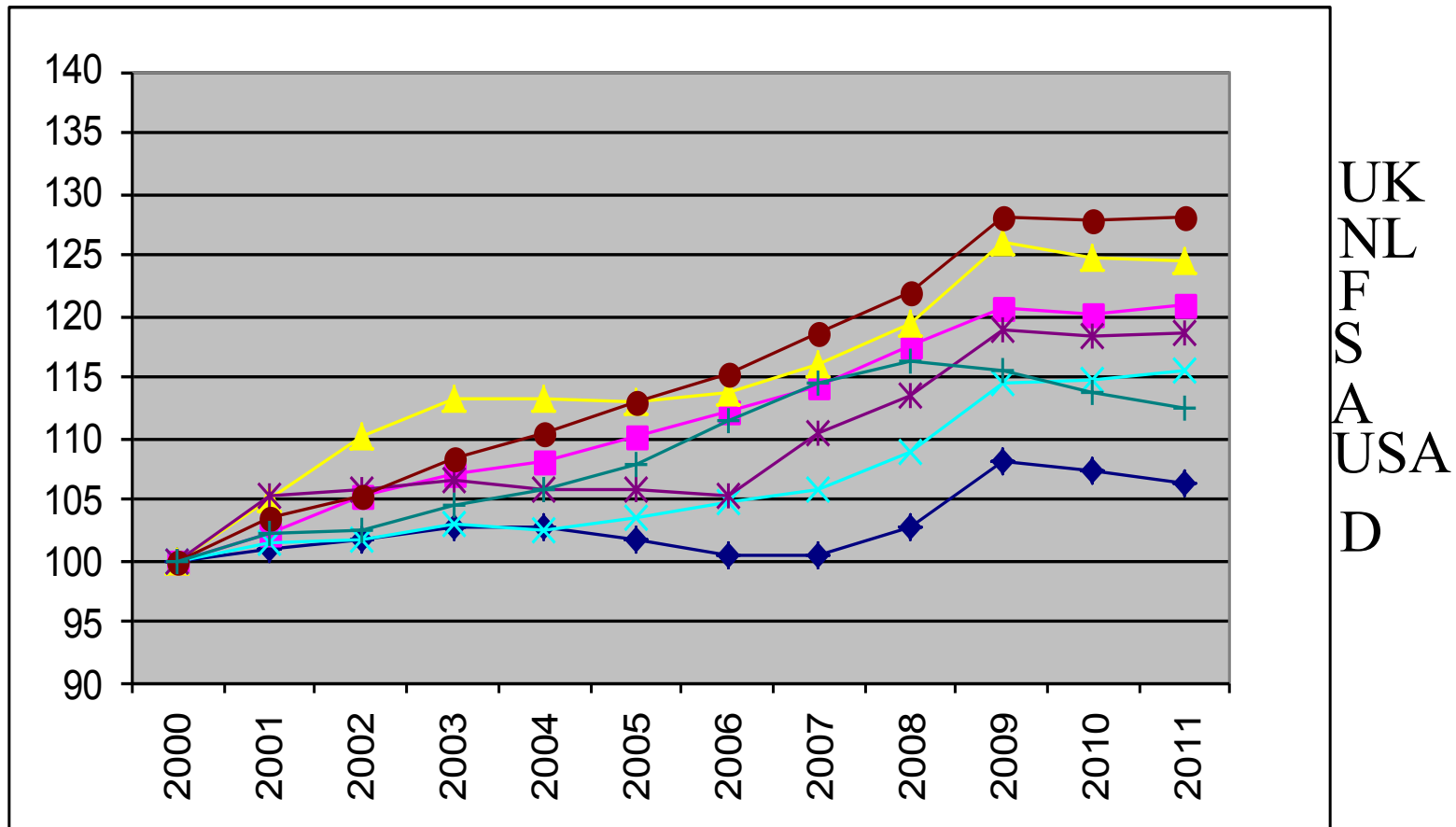
(in % of disposable income)



Germany's Trade Development



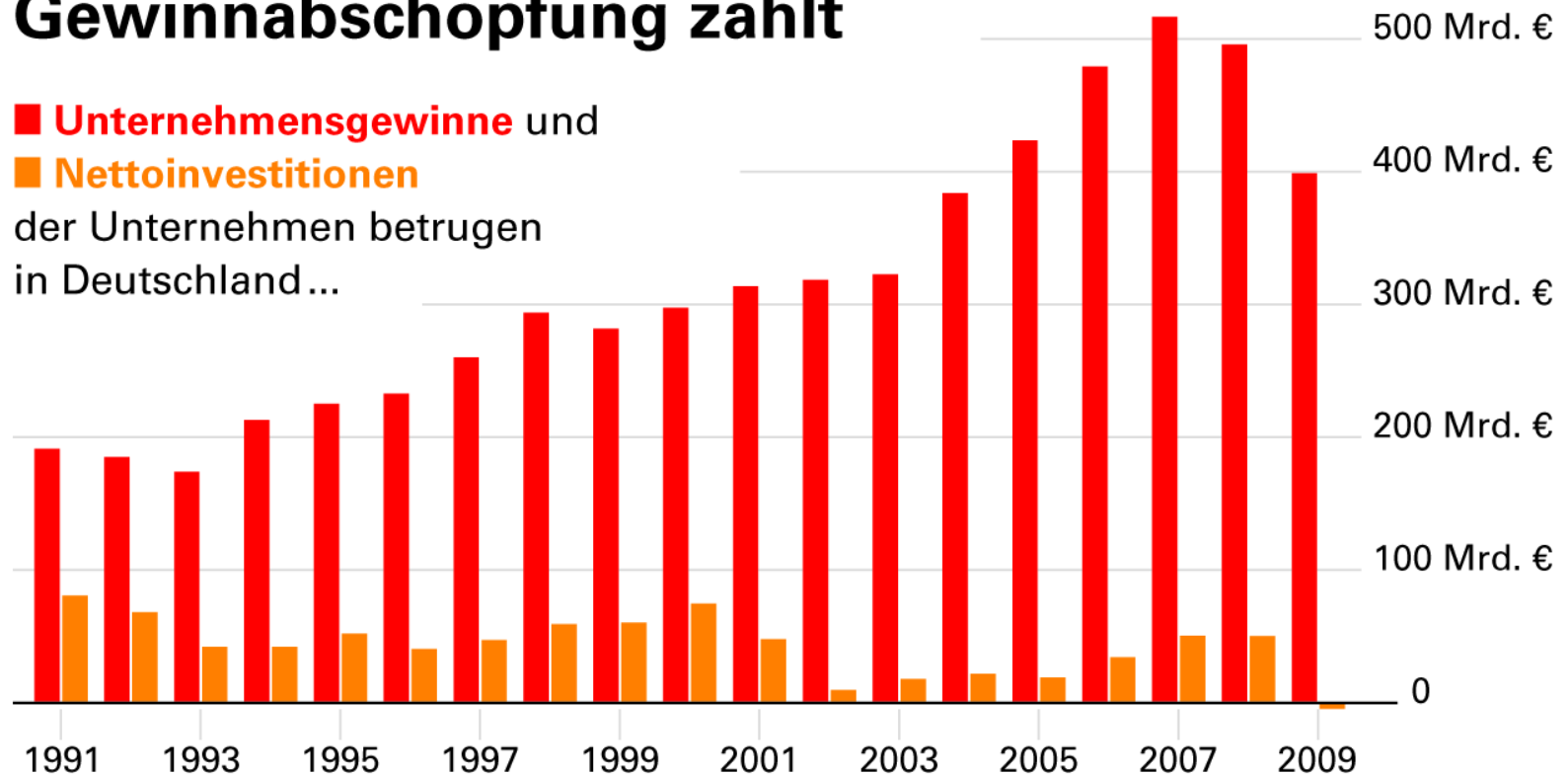
Unit labor costs



Do higher profits lead to more investment?

Gewinnabschöpfung zählt

■ **Unternehmensgewinne** und
■ **Nettoinvestitionen**
der Unternehmen betragen
in Deutschland...



Quelle: Statistisches Bundesamt 2010, Berechnungen Prieue, Rietzler 2010 | © Hans-Böckler-Stiftung 2011