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# Structure

- The German model of capitalism
- Germany and Europe
- Germany and EU crisis
- An alternative view: Germanization as part of the problem

# The German model of capitalism

- The main target of German economic policy after WWII was to quickly re-establish its industrial potential:
  - ➔ ,double‘ corporatism:
    - **German ,Mitbestimmung‘** to pacify IR ➔ high productivity growth
    - **German ,class compromise‘** prioritising price stability, wage moderation and high level of (Bismarckian) social security ➔ low (nominal) unit labour cost growth & real depreciation of Deutsch mark ( ,wage-oriented devaluation‘)

# The German model of capitalism

- Economic consequences of the ‚German model‘ (‚soziale Marktwirtschaft‘):
  - Germany became ‚world champion‘ in exports
  - High price stability and strong price stability culture
  - Relatively high industrial share in GDP (‚lack in services‘)
  - Relatively low unemployment
  - Relatively compressed wage and income structure
  - Relatively high social security standards paid mainly out of contributions

# The German model of capitalism

- Recent changes to the ‚German model‘:
  - Extremely restrictive fiscal policy since German unification create stagnative ‚market constellation‘  
→ **growing unemployment**
  - Lack of minimum wage legislation and weakness of trade unions + social security reform (Agenda 2010) caused a **marked increase in wage & income dispersion**
  - income & corporate tax cuts undermined the tax base
  - Constitutional ‚deficit break‘ poses heavy restrictive burden on federal & Länder

# Germany and Europe

- Due to the German history, the **FR Germany** always took a pro-active, positive approach to European integration
- However, **German academic economists** (firmly rooted in the GE paradigm) were very reluctant to further EU integration, particularly EMU:
  - EMU is no OCA, thus structural problems will either
    - \* put the ECB under pressure to inflate
    - \* cause unsustainable fiscal balances in some MS
    - \* needs regional (re-)distribution (transfer union)

➔ EMU only feasible after real convergence

# Germany and Europe

- Yet, although Germany tended to take a low profile position on putting its interest first, particularly European monetary unification can be seen as a ,Germanization of Europe‘:
- Due to the strong veto position of Germany, EMU & ECB has been constructed according to German demands
- Fiscal policy (SGP) has also been constructed according to German demands (hard, restrictive coordination)
- French ideas of a ,Gouvernement Economique‘ has been watered down to soft coordination

# Germany and Europe

- Soft macroeconomic coordination of the ‚Cologne process‘ must be seen as ‚mistake‘ with respect to the German approach to European economic governance and has never reached a ‚working status‘ after its inventor Oskar Lafontaine resigned as German finance minister
  - ➔ Germans priority was on price stability and, as real convergence was unattainable, nominal convergence + hard coordination



# Germany and EU crisis

- For most academic economists, skepticism has been confirmed:
  - SGP could not prevent what is seen as ,unsustainable‘ deficits (only few countries complied with SGP, some obviously manipulated recorded data)
  - ECB ,was forced‘ to buy loans of low rating
  - MS are bailing out other MS
- ➔ in order to prevent EMU to become a weak currency zone, (most) German academic economists suggest:
  - strengthening of SGP (with respect to fines)
  - strengthening the price stability orientation of ECB (no ,monetary bail-out‘ of insolvent MS)

# Germanization as part of the problem

- Although the SGP has not proven to be as strict as some feared, a clear change in fiscal policy stance can be shown
- Although Greece's fiscal position already became unsustainable before the crisis (particularly due to problems in levying taxes), SGP provided for a pre-crisis decline in government debts. The huge increase in governments debts is crisis-prone, not structural
- Greece's (and others?) solvency problem is – when interest rates peaked at more than 4 times the EMU average – not an expression of risks involved but speculation against EMU
- EU's emergency package was a necessary collective

# Germanization as part of the problem

- Main structural problems in EMU are:
  - growing regional imbalances due to lasting NULC deviations
  - the restrictive stance of fiscal policy coordination in EMU (SGP) which does neither allow for appropriate regional differences nor for a pro-growth part of fiscal policy in a true macroeconomic cooperation (within the EMD)
  - one-sided price stability orientation gives ECB no incentive to participate in EMD
- ➔ growth-oriented market constellation unlikely, no mechanism to cure regional imbalances