German capitalism and the global crisis:
part of the solution or part of the problem?

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IWPLMS
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Input of domestic demand and current account surplus to GDP growth

Source: Priewe/Rietzler 2010, p. 65
Gross real wages growth per capita, 2000-2008

Im Zeitraum 2000 bis 2008 entwickelten sich die Reallöhne pro Kopf* in den...

**...Staaten der alten EU-15**  

<table>
<thead>
<tr>
<th>Land</th>
<th>Realwages Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deutschland</td>
<td>-0,8%</td>
</tr>
<tr>
<td>Österreich</td>
<td>2,9%</td>
</tr>
<tr>
<td>Spanien</td>
<td>3,3%</td>
</tr>
<tr>
<td>Portugal</td>
<td>4,6%</td>
</tr>
</tbody>
</table>

**...neuen EU-Staaten**

<table>
<thead>
<tr>
<th>Land</th>
<th>Realwages Growth (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgien</td>
<td>7,9%</td>
</tr>
<tr>
<td>Italien</td>
<td>7,5%</td>
</tr>
<tr>
<td>Luxemburg</td>
<td>8,1%</td>
</tr>
<tr>
<td>Frankreich</td>
<td>9,6%</td>
</tr>
<tr>
<td>Niederlande</td>
<td>12,4%</td>
</tr>
<tr>
<td>Schweden</td>
<td>17,9%</td>
</tr>
<tr>
<td>Finnland</td>
<td>18,9%</td>
</tr>
<tr>
<td>Dänemark</td>
<td>19,0%</td>
</tr>
<tr>
<td>Großbritannien</td>
<td>26,1%</td>
</tr>
<tr>
<td>Island</td>
<td>30,3%</td>
</tr>
<tr>
<td>Griechenland</td>
<td>39,6%</td>
</tr>
<tr>
<td>Malta</td>
<td>40,3%</td>
</tr>
<tr>
<td>Zypern</td>
<td>48,1%</td>
</tr>
<tr>
<td>Polen</td>
<td>49,1%</td>
</tr>
<tr>
<td>Slowenien</td>
<td>51,9%</td>
</tr>
<tr>
<td>Tschechien</td>
<td>66,7%</td>
</tr>
<tr>
<td>Bulgarien</td>
<td>104,4%</td>
</tr>
<tr>
<td>Ungarn</td>
<td>104,4%</td>
</tr>
<tr>
<td>Litauen</td>
<td>66,7%</td>
</tr>
<tr>
<td>Estland</td>
<td>66,7%</td>
</tr>
<tr>
<td>Lettland</td>
<td>66,7%</td>
</tr>
<tr>
<td>Rumänien</td>
<td>66,7%</td>
</tr>
</tbody>
</table>

Nominal wages as agreed in collective bargaining*

* West Germany, 2000 - 2010
Source: Bispinck, WSI Report 6, 2011
What is behind 'wage moderation'?

• Breakup of pattern bargaining -> widening gap mfg-services
• Drop in bargaining impact due to
  • Drop in coverage (East and West)
  • De-facto abolition of extension mechanism
  • Local derogations from industry standards
• Fragmentation of bargaining structures due to
  • Outsourcing
  • Soaring temp agency labour
  • Privatisation
  • Break-up of bargaining structures of public employers
• 'Labour market reforms' -> push towards dualisation of LM
  • 'Mini jobs'
  • pressure on wages
Current accounts of Germany with Eurozone (bn €)

Source: Joebges / Logeay / Stephan / Zwiener FES 2010
Labour productivity per hour and real hourly wages

Source: Priewe/Rietzler FES 2010, p. 63
Labour and capital income, by business cycle

Source: Brenke DIW-WB 8/2011
Corporate profits and net investment

Source: Priewe/Rietzler FES 2010, p. 37
Preparing the ground: interactions in the German model

<table>
<thead>
<tr>
<th>Production regime</th>
<th>„German lean production“ <em>plus</em> boost in price competitiveness within Euro zone due to below average inflation rate through ...</th>
</tr>
</thead>
</table>
| Employment regime | ... Fragmentation of employment regime =>  
  • soaring income inequality  
  • *stagnating domestic market – dependency on net exports* |
| Welfare regime    | Substantial tax cuts => break-up of institutional basis for dissemination of economic success =>  
  • lagging investment into infrastructure for education / gender equity / ageing society  
  • *profits-investment gap => capital export* |
Two lessons

Lesson 1 - Before the crisis:
Dismantling of major pillars of German model helped to prepare the ground for the crisis

Lesson 2 – In the crisis:
Surviving elements of model stabilised economy and labour market in the crisis
Elasticity of employment decline to GDP contraction

Source: European Commission (2009)
External and internal flexibility in the crisis

Index 2000 = 100

Source: IAB
What next?

- quick start from stand-by mode, but ...
- ... hidden vulnerability:
  - net export bias
  - dualisation of LM
  - austerity dogma
  - repercussions from Euro crisis

Eurozone receivables of German banks*

* As per cent of equity capital of German banks
Source: IMK
Upcoming conflicts

- Minimum wage + equal pay (+ extension of c.a.)
- Austerity approach
  - -> tax base of municipalities
  - -> tax base for 'social investment'

Sustainability of German growth model?

Trying the impossible: Imposing the German way on the EU
The new EU organigram? The 'obedient hegemon'