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Playing Catch Up

Wolfgang Streeck

German Economic and Business History in the 19th and 20th Centuries by Werner Plumpe
Palgrave, 367 pp, £86.00, August 2016, ISBN 978 1 137 51859 0

The Seven Secrets of Germany: Economic Resilience in an Era of Global Turbulence by David Audretsch and Erik Lehmann
Oxford, 229 pp, £22.99, February 2016, ISBN 978 0 19 025869 6

Germany's Role in the Euro Crisis: Berlin's Quest for a More Perfect Monetary Union by Franz-Josef Meiers
Springer, 146 pp, £90.00, November 2016, ISBN 978 3 319 37052 1

How could Germany of all countries have become a paragon, politically stable and economically successful, of democratic capitalism in the 1970s – 'Modell Deutschland' – and later, in the 2000s, Europe's uncontested economic and political superpower? Any explanation must have recourse to a Braudelian *longue durée*, in which destruction can be progress – utter devastation turned into a lasting blessing – because capitalist progress *is* destruction, of a more or less creative sort. In 1945 unconditional surrender forced Germany, or what was left of its western part, into what Perry Anderson has called a 'second round of capitalist transformation' of the sort no other European country has ever had to undergo. Germany's bout was a violent – sharp and short – push forward into social and economic 'modernity', driving it for ever from the halfway house of Weimar, in a painful dismantling of structures of political domination and social solidarity, feudal fetters which had held back the country's capitalist progress and which, in locally different manifestations, continue to block capitalist rationalisation in many other European countries.

First among the events that put West Germany on the path to what it would later become was the arrival of ten million refugees and expellees from the East, who made up roughly one in five inhabitants of a devastated territory less than half the size of the prewar Reich. While some of them remained isolated, depressed and poor for the rest of their lives, others had brought with them as their only possession a determination to fit in and succeed in what was for them in many ways a foreign country. Their arrival disrupted for ever the fabric of what had been until then a largely traditional society divided between urban and rural, Catholic and Protestant, left and right. Centuries-old parochial ways of life and socio-cultural milieux were broken up, often in the face of adamant resistance. But, ultimately, the skills and hard work the newcomers contributed to their new homeland forced the locals to give them a chance to establish themselves. As a result, West Germany became a uniquely competitive and meritocratic society.

This was far from all. As Ralf Dahrendorf was probably the first to recognise, the two forces that had between them worn down the Weimar Republic – the eastern aristocracy (the Junkers whom Max Weber had identified as the Reich’s main roadblock to capitalist modernity) and the Communist opposition – had disappeared. The Junkers had been decimated by the Nazis after the putsch of 1944, and the rest were killed or driven from their estates by the advancing Red Army. The Communists now had their own state under Soviet sponsorship, the German Democratic Republic, which so much weakened them in the West that in 1956 the West German Constitutional Court outlawed the party. Both wings, reactionary and potentially progressive, of onetime resistance to capital were thus eliminated, leaving only the Social Democrats (SPD) and Christian Democrats (CDU) in the middle. The CDU, a descendant of the Catholic Zentrumspartei of the Weimar period, appealed to Christians irrespective of denomination, in keeping with the postwar break-up of homogeneous local confessional communities. Add to this the disappearance of the Nazis as an organised political force and the incarceration of Germany’s industrial tycoons by the Allies (albeit soon to be released to help with the KoreanWar), and the result was a vastly simplified political landscape and an economic geography shorn of the parasitic manorialism of Prussia, now dominated instead by what would become the highly productive dualism of a small-firm economy in the south, south-west and Rhineland, and the huge industrial complexes in the Ruhr. (While the industrialists were in custody, the British had introduced robust rights for unions and workers’ participation in management, particularly of coal and steel companies.)

In comparison with these new structural fundamentals, as Philip Manow has pointed out, the influence of what is generally thought to have been the key economic doctrine in postwar Germany, the ‘ordoliberalism’ of the Freiburg School and its associates, a milder variant of the radical free-market theories of Hayek and Mises, tends to be overestimated. An offspring of Protestant social theory centred on the virtues of competition, it had to exist side by side with a born-again Rhenish-Catholic corporatism, which was soon to blend indistinguishably into the corporatist outlook of a no longer politically divided union movement. Reducing the role of the state in the economy to something like indirect control was a widely shared objective after the Nazi dictatorship. But this did not mean that capital would be given free reign, or that the distribution of incomes and wealth would be left to the market. Competition, under ordoliberalism, was an instrument to keep market power in check, but it was applied solely to product markets, never to labour markets, and only much later to capital markets; it was therefore met with approval even by trade unionists and Social Democrats. Catholics, empowered by the new economic and political geography, and traditionally concerned with ‘social justice’ (a concept Hayek considered nonsensical), always regarded the ordoliberalism of Ludwig Erhard’s Economics Ministry with suspicion, even though its standard-bearers adopted the rhetoric of the ‘social market economy’ and committed themselves to ‘prosperity for all’. In any case, Adenauer, Rhenish Catholic that he was, understood the pacifying capacity of social policy and skilfully used the Ministry of Labour to ensure that ordoliberalism never became the only game in town. Even on its home turf of anti-trust legislation, ordoliberalism suffered painful setbacks in the politics of West

Germany, its leading theorists shifting their attention early on to the emerging European Economic Community, whose competition law they effectively managed to monopolise.

Unconditional surrender and the carving up of the Reich helped the German economy in other ways too. German industry had always been dependent on foreign markets for sale of its manufactured goods and for the raw materials it needed. Fear of being denied access to these markets, especially by the British, was an old German nightmare, which the Nazis tried to end through imperial conquest and autarky. The small, wholly defeated, semi-sovereign West Germany did not have such options. In the event, integration into the American-led post-Bretton Woods free-trade regime, and later into the EEC, offered a vastly superior alternative, not least because under the regime’s fixed exchange rates the new West German currency became increasingly undervalued over time. In the 1950s and 1960s, this laid the foundation for a uniquely strong, heavily export-dependent industrial sector which, continuing older traditions, became the centre of gravity of the West German and later the German political economy.

Werner Plumpe’s recently translated collection of essays gives an account of the postwar *Wirtschaftswunder* and the structural changes that followed it, focusing on the German tradition of ‘social partnership’ between capital and labour, grounded in a common interest in export performance. Plumpe shows that, contrary to the mainstream left-wing view of German business in the interwar period as being firmly on the side of anti-unionism and fascism, a desire for cross-class co-operation and social compromise existed among German employers even in the Weimar Republic.

A further misconception about the inter-war period, widely shared by outside observers, is that the deep aversion to inflation which has pervaded postwar German economic policy derives from collective memory of the hyperinflation of the 1920s. Much more significant is Germany’s structural condition as an over-industrialised national economy. That the West German central bank was from the beginning strictly independent of the government had less to do with ordoliberalism than with the fact that the introduction of the Deutsche Mark preceded the foundation of the West German state – not to mention the Allies’ determination to prevent future German governments from financing new rounds of rearmament by printing money. A common interest in low inflation also informed the West German class compromise, with the metal workers’ union, IG Metall, soon dominating the country’s industrial relations. In 1969, the incoming Social-Liberal coalition revalued the Mark in an attempt to shift economic growth from export performance to domestic demand. But as with subsequent revaluations, the effect was only temporary: owing to their superior quality, German industrial goods weren’t very price-sensitive. Still, employment in manufacturing declined, slowly but steadily, and in 1984 IG Metall called a prolonged nationwide strike for a 35-hour working week. For the first time, in the *Economist* and elsewhere, Germany was pronounced a victim of creeping ‘Eurosclerosis’.

Nevertheless, by the end of the 1980s, with a population half the size of Japan’s and a quarter that of the United States, Germany had surpassed both as the world’s champion exporter. This was underpinned by a concentration on the production of high-value-added goods, a field in which competition is over quality and service rather than price. The industrial upgrade was accommodated – indeed was in part forced by – powerful trade unions and works councils defending high wages and low wage differentials, and drew on long-standing German traditions of high-quality engineering and vocational training, both of which were reinforced by educational reforms in the 1960s and 1970s. The result was a national supply-side strategy that utilised traditional cultural and institutional resources to rewrite the postwar class compromise, in the workplace as well as in the economy at large, at a time when, elsewhere, deindustrialisation was already well underway.

German unification came as a severe jolt, precipitating the country into a deep recession, not least because the oversized West German manufacturing sector had no need for additional production sites in the *Neue Länder*. To finance the full-scale extension of the West German welfare state to East Germany while keeping his promise not to raise taxes, Helmut Kohl accepted a rapid increase in non-wage labour costs, leading to high and rising unemployment. This provoked public debate as to whether in the 1980s Germany had missed its moment to move towards a ‘service economy’ on the British and US model. The *Economist* and the *Financial Times* called Germany ‘the sick man of Europe’. As globalisation opened up opportunities for companies to relocate production and employment, to Eastern Europe and China in particular, IG Metall in 1995 urged the Kohl government and employers to join the unions in a tripartite ‘Alliance for Jobs’. This, however, was blocked by the Liberal Party (FDP) and the CDU floor leader, Wolfgang Schäuble, who preferred neoliberal ‘structural reforms’ (as he would two decades later in the Mediterranean). In the years that followed, unions in the export sector of the German economy learned the hard way to accept wage restraint without compensation, in a painful process that extended from a fruitless second attempt at a tripartite employment policy under Gerhard Schröder in 1998-99, to the laying out of the neoliberal ‘Agenda 2010’ in 2003, to the threat of the first Merkel government (2005-9) to curtail the right of trade unions to collective bargaining.

Why did this not lead to more social conflict? In the rapidly internationalising economy of the 2000s, employment in a manufacturing country like Germany depended more than ever on international ‘competitiveness’, not just in product markets but also in labour markets, since manufacturing jobs are easier than service sector jobs to relocate abroad. Keeping inflation and unit labour costs low became the unions’ overriding concern, making them once again reliable allies in the eyes of employers and the government. At first the recalibration of German wage-setting institutions in response to political pressures didn’t help much. With European Monetary Union in 1999 and the transition to a single interest rate for the whole of the Eurozone, Germany as a low-inflation country had to live with interest rates higher than it needed for monetary stability, while the high-inflation member countries benefited, if only for a while, from rates that were too low for them. Gradually, however, rising unit labour costs in these countries (which under EMU could no longer defend themselves through devaluation) and steady or even decreasing unit labour costs in Germany turned the tables. After 2008, when credit for the countries lagging in ‘competitiveness’ was no longer forthcoming, Germany finally experienced its second *Wirtschaftswunder*, while the economies of the Mediterranean EMU member countries began to collapse.

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Here the story is picked up by David Audretsch and Erik Lehmann. They purport to reveal the ‘seven secrets’ that enabled Germany to muster, in the words of their subtitle, ‘economic resilience in an era of global turbulence’. What are these secrets? Lots of small firms (*Mittelstand*), imbued with a new spirit of entrepreneurship prompted by Schröder’s declaration that 2004 would be the Year of Innovation; more students and higher spending on research and education, as German universities liberated themselves from ‘the ponderous centuries-old model of the university crafted by Humboldt’; regional development policies; superior physical infrastructure; flexibility in combining innovation with tradition (‘laptops and lederhosen’); rapid innovation, especially in manufacturing; and feeling good again about being German. Five of these were already at work well before the slump of the 1990s; Schröder’s Year of Innovation was soon forgotten; and the expansion of tertiary education came at the expense of the vocational training system that Audretsch and Lehman correctly see as an important institutional resource. They are explaining short-term variation as an effect of long-term constants. What’s more, their historical-institutional analysis is overlaid by culturalist speculation drawn from newspaper clichés and the utterances of celebrities. Reading passages such as the following, one doesn’t know whether to laugh or cry:

> What do most Americans want to pass along to the next generation? Freedom … But Germany is different. Of course Germans value freedom … But Germans also value something else highly – beauty. German culture and sensibilities are a descendant of classical Greek values – which appreciate and hold beauty to rank among the greatest values … In Germany, beauty is embedded in a sense of structure. Consider the most compelling music ever composed in Germany, the national treasure of the great classical composers. Where would the beauty of Beethoven, Handel, Bach or Wagner be without structure? … If German is the language of classical music, with its heavily imposing structures, the Romance languages are better characterised by jazz, with its spontaneity, inspiration, and free format.

And so on.

German prosperity has depended historically on the export of manufactured goods and, later, the non-export of manufacturing jobs. Appeals to German unions to help rectify the obscene trade imbalance between Germany and other euro countries – by demanding higher wages and thereby raising unit labour costs – therefore fall on deaf ears. For the unions the euro is an ideal solution to the employment problem that hit them in the 1990s with the return of price competition and the internationalisation of production. Monetary union gives German manufacturing a captive market in Europe, as well as an edge over European competitors that have to operate in more inflationary institutional settings. On top of that, it equips German firms with an undervalued currency in markets outside the Eurozone, especially at a time when the ECB’s quantitative easing keeps pumping up the bloc’s money supply. To restrain the competitiveness of German industries in order to save the single currency, as outsiders sometimes suggest, would from the perspective of the unions be committing suicide for fear of death. It would also break up their alliance with employers and the government, held together no longer by trade union power but by the constraints and opportunities of the Eurozone. And it isn't only the unions for whom the competitiveness of German manufacturing is of paramount importance. Their priorities are shared by the government, currently a grand coalition of the centre-right, representing industry, and the centre-left, where the SPD is basically the political arm of IG Metall.

Like Audretsch and Lehmann, the political scientist Franz-Josef Meiers attempts to explain Germany's behaviour in the euro crisis in terms of culture not structure, blaming what he considers a disastrous cascade of errors on Merkel and the whole country's supposed religious adherence to the prescriptions of ordoliberalism. Meiers is a true believer in Anglo-American neo-Keynesian doctrine, and treats it as a collection of universally applicable recipes for economic recovery. His message is simple. All it would take for the Eurozone to flourish is for Merkel to shed the mindset of a Swabian housewife (Meiers is not afraid of clichés), start borrowing and spending, and allow other countries to do the same, so that eventually everybody in Europe is better off and lives happily ever after.

Is Merkel – is Germany – in refusing to do the right neo-Keynesian thing, mad or bad? Meiers ignores the fact that the German economy, including the German labour market, is today doing better than it has done for thirty years, with balanced budgets, zero inflation and government deleveraging. The reason, he believes, for Germany's rejection of Europe-wide debt mutualisation or forgiveness, of public deficits at home or abroad, and of higher German unit labour costs to get 'Europe' going again, is that ordoliberalism comes with sado-monetarism: Schadenfreude as the Mediterranean sinners suffer for their trespasses. Germany, then, is bad. But Meiers also seems to believe that the German preference for austerity reflects a mad shortsightedness: an inability to see that what benefits Germans now, at the expense of others, will later in some unspecified way come to damage them. Perhaps Germans are bad and mad at the same time, their Protestant desire to punish their neighbours preventing them from understanding their own interests?

Meiers never considers the possibility that countries requiring a soft currency to thrive would be better off outside the euro, in a flexible European monetary regime that would make it possible for them to restore their 'competitiveness' by way of occasional devaluations against Germany's hard currency. On this he is no less dogmatic than Merkel, with her mantra 'If the euro fails, Europe fails.' Germany's role in the euro crisis, *pace* Meiers, is determined by its own national economic interest, as it can be sold to a German electorate, as well as by the constraints and opportunities inherent in what, for all practical purposes, has become the unchangeable institutional framework of monetary union without political union. Meiers isn't alone in expecting the German state to act as though the political union the Kohl government had wanted to institute along with monetary union hadn't been blocked by France and other countries, which insisted – as they continue to insist – on their national sovereignty. That the EMU is structured as it is, with its emphasis on individual national 'responsibility', and its lack of provision for international 'solidarity', isn't so much ordoliberal as the only way a monetary union between otherwise sovereign states can exist.

Meiers believes that the ailments of the Eurozone could be cured by a democratically elected German government willing to act as an ideal collective European by voluntarily sacrificing some of the national 'competitiveness' monetary union has bestowed on the German economy. He takes for granted that in an era of secular stagnation it is possible to restart growth by further adding to public debt, although for decades now public debt has been increasing even as growth has decreased; that growth in the Eurozone would, or could by means of a common regional policy, be equally distributed among member countries, reversing the long-standing trend of increasing inequality; that all Eurozone countries respond equally to fiscal stimulus; that higher public spending in Germany would somehow increase employment in Italy or Spain; and that debt relief for over-indebted countries would remedy their underlying lack of competitiveness. All of these claims are highly questionable.

In the 1950s and 1960s the US played the role of 'responsible' hegemon. Can Germany, given the uncertainties of global capitalism today, its need to maintain monetary stability and competitive advantage, and its small size compared to the US, really be accused of having failed to adopt an equivalent role in Europe? In my view, what Germany may justifiably be criticised for is its reckless identification of a common currency with 'the European project'. There, of course, the governments of France and the Mediterranean countries are to blame as well, as they still hope to use the hard euro as an external constraint – a *vincolo esterno* – with which to 'modernise' their unruly political economies (and perhaps in the process extract a little help from their German friends). With monetary union set up as it is, and the path to political union foreclosed not only by member states but also by their peoples, the Merkel government, like previous German governments, has only one suggestion to offer the rest of Europe: that each country catch up with Germany by subjecting itself to its own second round of capitalist transformation – 'structural reforms' involving the replacement of traditional forms of social solidarity with market competition and, perhaps at some later date, the embedding of competition in modern institutions of solidarity, like the welfare state and collective bargaining. For this to happen, willing governments must be kept in power, if need be through discreet suspension of democracy, since resistance to the treatment is growing on a broad front. Here, as so often in her long career, Merkel is anything but dogmatic, and certainly isn't beholden to ordoliberal orthodoxy since what is at stake is Germany's most precious historical achievement, secure access to foreign markets at a low and stable exchange rate. For several years now, Berlin has allowed the European Central Bank under Draghi and the European Commission under Juncker to invent ever new ways of circumventing the Maastricht treaties, from financing government deficits to subsidising ailing banks. None of this has done anything to resolve the fundamental structural problems of the Eurozone. What it has done is what it was intended to do: buy time, from election to election, for European governments to carry out neoliberal reforms, and for Germany to enjoy yet another year of prosperity.

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