The Paradox of the 'German Model'

Steffen Lehndorff *of the University of Duisberg-Essen criticises the presentation of Germany as offering an ideal 'model for Europe'. Instead, its labour market reforms in the early 2000s allowed it to export deflation to the rest of Europe, with disastrous consequences*

Paul Krugman recently stated that, 'if you try to identify countries whose policies were way out of line before the crisis and have hurt Europe since the crisis, and that refuse to learn from experience, everything points to Germany as the worst actor' (NYT 08/12/2014). The reason why this policy approach is credible for large parts of the European public, however, has very much to do with the relatively (by Euro-zone standards) positive economic and labour market trends in Germany since 2008.

The bitter irony is, if for the wrong reasons, this turn of events favours the presentation of Germany both at home and abroad as a model for Europe, which provides a platform for the German government's leading role in imposing the wrong lessons about the alleged virtues of austerity and labour market deregulation on other countries.

The role model image of Germany can be traced back to the much lauded 'German employment miracle' in 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. While the guiding principle of the SPD-Green 'labour market reforms' in the years before had been the promotion of *external* flexibility as one of the core neoliberal dogmas of employment policy, it was was precisely the opposite, i.e. the reactivation of *internal* flexibility, that rescued the German labour market in the crisis.

Similarly, for the first time in many years, stronger economic impetus came from the domestic market by soaring public expenditures and rising wages. The newly gained domestic stability helped industrial companies to react most quickly to the initial global economic recovery from the 2nd half of 2009.

It was on this basis that Germany was able to avoid what other – sometimes even less indebted – countries were obliged to do: introduce drastic austerity programmes in the course of the Euro-zone crisis from 2010. 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.

Since 2010 the paradoxical development went even further. The growing public awareness of deepened social inequality in the aftermath of the 'Agenda 2010' plus the experience of the responsible role of trade unions in crisis management in combination with their active campaigning against precarious work and for the introduction of a statutory minimum wage changed attitudes vis-à-vis trade unions in large swathes of the German society.

In contrast to continuous anti-trade union campaigning, fed by various lobby groups and the ever-present 'economic experts', which had dominated the media before the crisis trade unions now began to benefit from tailwind for their wage policy to an extent not experienced since the early 1990s. Thus over recent years, largely due to the overall more favourable development of wages, private household demand has been able to play a stabilising role for GDP growth in Germany for the first time since the establishment of the monetary union.

The positive effects thus triggered may in future be enhanced by the new labour market regulations introduced by the present German government. And again, precisely that which has helped and continues to help Germany has dictatorially been refused to the most crisis-ridden countries.

The paradox of development before and after 2008 can be summed up as follows: Before the crisis, the 'labour market reforms' had neither accelerated GDP growth nor the employment intensity of GDP growth. Their main effect was an enormous downward pressure on wages, which deepened social and economic imbalances in Germany which were exported into the Euro-zone and paved the way into its current crisis. The comparatively positive economic development since 2009, in contrast, is not to be attributed to 'Agenda 2010', but rather to the first attempts at limiting the damage caused by these 'reforms' on the German labour market.

The current break in the continuation of the 'Agenda' policy favours the presentation of Germany both at home and abroad as a model for Europe. The message is misleading and its effects are disastrous. It is a 'trick' likely to send any spin doctor into rapture.

Further reading:

Lehndorff, S. (2015) *Model or liability? The new career of the 'German model'.* In: Lehndorff S. (ed.) Divisive Integration. The triumph of failed ideas in Europe – revisited. Brussels, ETUI: 149-178.

Lehndorff, S. (2015) Acting in different worlds. Challenges to transnational trade union cooperation in the eurozone crisis. *Transfer: European Review of Labour and Research* (forthcoming)

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