

A stylized world map composed of grey dots, with several dots in red and grey, primarily concentrated in Europe and North America.

Germany Needs a New Growth Path

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Introduction¹

Despite its recent successes, a broad evaluation of Germany in terms of welfare reveals a number of shortcomings, especially with regard to social indicators. These shortcomings include rising inequality, a sharp dualisation in the labour market, in both the private and the public sector, and a distinct lack of equal opportunities, which is already discernible in the education system and leads to low upward social mobility. Furthermore, an examination of environmental indicators shows clearly that Germany is not managing to increase energy efficiency to the degree required by the necessary turnaround in climate and energy policy. A sector analysis also suggests that innovation in industry and general progress in services are needed in order to ensure continuing productivity growth in the future.

there is a danger that part of the population will be excluded from social and economic participation in the long term.

Germany should switch to an ambitious growth strategy, by striving for social growth. In other words, it should follow an environmentally sustainable growth path on which low incomes also grow, differing start chances are evened out and life's contingencies – employment, health and old age – are braced by a tight social net.² The importance and urgency of such a change of course have increased against the background of the European debt and economic crisis, which threaten to become a crisis of the European economic and social model. This ambitious or »high-road« strategy can be characterised by the target dimensions of quality, flexibility, security and equal opportunities.

Moving Away from the Correction Strategy

This backsliding with regard to important welfare goals was partly the consequence of a deliberate policy for coping with reunification and for the correction of cost positions and rigidities in the labour market. Partly, it was also due to neglect of vital growth factors research and human capital; vital for a leading country and economy. Conditions no longer justify a continuation of this »correction strategy«. Current wage levels indicate that price competitiveness is strong, as illustrated by the high current account surpluses. The labour market is sufficiently flexible, as relayed by the sharp rise in employment immediately after the 2009 recession. At the same time,

Education and Innovation as Supporting Pillars of Social Growth

Social growth must be supported by an offensive for more quality in education and research, which are keys to the future, and a concentration on high tech growth sectors. The latest PISA results indicate progress in the German education system. Important steps have also been taken in the university system, with the establishment of excellence initiatives and reform of organisational structures. However, further quantitative and qualitative measures are essential in the education system. In Germany, the socioeconomic status of the parental home largely influences the length and level of the school career. The participation of children from working-class

1. This article was originally published as »Ein neuer Wachstumspfad für Deutschland«, WISO direct, Bonn 2012, and is based on the results of the study »Ein neuer Wachstumspfad für Deutschland: Strukturpolitik für Soziales Wachstum«, WISO Diskurs, Bonn 2012.

2. On the concept of social growth see Friedrich-Ebert-Stiftung: »Social Growth: Model of a Progressive Economic Policy«, Friedrich-Ebert-Stiftung, Berlin 2012.

families in tertiary education has risen much more slowly in recent decades than that of children from families with high social status: This means that the distribution of university graduates is more socially determined than in the 1980s. Furthermore, the educational opportunities of children with an immigrant background are worse than those of children from comparable German households.

In order to correct these difficulties, obstacles in the education system must be dismantled. The transition into the next level of education should be postponed until later. Moving between different levels must be made easier. Later educational transitions could go hand in hand with greater internal differentiation within schools (streaming and modules). In order to improve the integration of children from educationally and socially disadvantaged backgrounds there must be a much stronger focus than hitherto on the preschool level. Educational policy must begin during early childhood; the provision of integrated services must be understood as an investment in education and be treated accordingly in public debate. At the same time, incentives to obtain formal school qualifications at a later date should be increased, together with the option for temporary leave for further training. Capacity must be increased in tertiary education. Conditions should be improved for the upcoming generation of academics. Research and teaching must be brought closer together.

An education policy that offers equal access opportunities and supports lifelong learning is also a key component of a systematic industrial policy. This means a combined industrial and innovation policy that foresightedly integrates trends in the economic and social system. The old debate on whether an industrial policy should be oriented towards sectors (i.e. selection of priorities) or horizontally (i.e. strengthening basic conditions) has been superseded at the EU level by an integrated approach to industrial policy. Cross-sector measures to support growth (research, training) are combined with sector-specific strategies (e.g. biotechnology, environment, health care). Furthermore, clustering is now being promoted in every country, with the integration of production and training, companies and universities. A systematic industrial policy caters for social needs, by combining them with the available possibilities, encouraging growth factors and recognising competition and globalisation as positive forces.

Structural policy measures are also needed for the service sector, both to improve the quality of services and jobs and to boost demand for income-elastic services. The difficulties in which services find themselves as a consequence of their so-called »cost disease« cannot be solved entirely, but can be ameliorated by means of a variety of approaches (productivity increases, social innovations, targeted shift of household related services into the market). The future employment and creation of value-added in services will be determined to a considerable extent by the role of the state. The public authorities can lay down standards with regard to the quality of services, but also in relation to job quality (professionalisation, job organisation in accordance with gender and age). Targeted, regulated competition with regard to private and public provision can reduce costs and promote innovation. The Scandinavian countries illustrate that the transition to a service society is possible with high quality and well-paid jobs and that the state can make an important contribution to its development.

Reduction of Segmentation and Redistribution of Flexibility

The labour market reforms of recent years have brought wider wage spreads in their wake and the wage level has struggled to rise. The burden of labour market flexibilisation has been unequally distributed. While protection and regulation of normal employment conditions have survived or even increased slightly, atypical employment forms have been sharply deregulated. This dualisation of the labour market accentuates the incidence of (new) social risks and establishes negative incentives for building human capital since precarious and atypical employment can become a productivity trap. Prolonged part-time employment can also lead to flat career trajectories and poor further qualifications, not to mention income losses for workers and suboptimal resource allocation due to the strong gender-specific segmentation of the economy.

The dualisation of the labour market should be reined in, but without reducing flexibility overall. The level of social security protection – employment protection, regulation of severance pay and so on – should be decoupled from the form of employment. As in Denmark, flexibility should also be shared by those whose employment conditions currently have a high level of protection and regulation. A desegmentation strategy requires an increase

in regulation at the lower end and a reduction at the upper end. This must apply to the public sector where the German state as employer, with its policy of heavily using atypical employment contracts, has promoted the emergence of a large segment of outsiders with precarious employment conditions.

Improvement of Protection and Changes in the Tax System

To the extent that the segmentation of the labour market is reduced and flexibility better distributed among employees, the protection of »outsiders« can be improved. Atypical employment should be better integrated in the social security system and, at the same time, more should be done to promote transition to normal employment. Atypical and flexible employment episodes should represent temporally limited phases in a person's working life with clearly defined goals (for example, fixed-term contracts on career entry or re-entry, part-time work while starting a family and so on). Incentives and the regulatory environment should ensure that atypical employment does not become a permanent state of affairs and that flexible employment forms are not used in ways that were not intended.

A sufficient degree of income security requires the dismantling of the low wage sector. This has grown incessantly since the 1990s, remaining at a high level for the past few years. Although the low wage has allowed for a substantial increase in employment, in many instances low wage employment has led to a deterioration in living standards, as wages can be below subsistence levels. The low wage level is not only a problem with regard to employees' current circumstances, but also harbours the danger of long-term low productivity and poverty traps. This development has gone hand in hand with the erosion of Germany's wage model and is reflected in a sharply declining wage share. The stabilisation of employment and a consistent minimum wage policy must be part of a strategy to reduce the low wage sector alongside measures with regard to further training and boosting the level of qualifications.

Improving income security can also be promoted by raising net incomes, especially those below the median

of 1,294 Euros a month.³ Although a discernible reduction in the general tax ratio appears unrealistic due to the on-going consolidation efforts Germany has considerable scope for optimising the tax and contributions structure. While taxation of labour and consumption has risen continually in recent years wealth-related taxation has declined. At present, in Germany total revenue from wealth-related taxes comprises less than 1 per cent of GDP, a value that few other OECD countries fall below. A revenue-neutral shift in the burden from social security contributions and wage taxes to wealth-related taxes – for example, on real estate, inheritances and gifts – could be used to improve the income position of less qualified workers and counteract the stark uneven distribution of wealth. It could also be part of a broader adjustment of the tax system with the emphasis on employment-friendly and environmental elements. Reform of the tax system should also include the abolition of current incentives towards part-time employment or inactivity among women spurred by tax models favouring the male sole bread winner, as well as further incentives to involve men in household and caring activities.

Germany as Role Model for a New European Growth Path

The growth path that Germany has pursued is significant not least for the debate on the course to be taken by Europe as a whole. Europe is in search of a new growth strategy which it has outlined in the Europe 2020 Strategy and the research programme »A new growth path for Europe«.⁴ This is not the first attempt to change Europe strategically. As early as 2000 Europe sought in the Lisbon Strategy to become the most competitive economic area, increase the research ratio to 3 per cent and to surpass the United States. The results were meagre at best. The Europe 2020 Strategy envisages an »intelligent, sustainable and integrative« growth path. »Intelligent« means building on knowledge and innovation; »integrative« means a high level of employment and social and regional cohesion; and »sustainable« means resource-conserving, environmental and competitive.

3. Value for 2009. See Brenke, Karl; Grabka, Markus M.: »Schwache Lohnentwicklung im letzten Jahrzehnt«, in: DIW Wochenberichte, No. 45, 2011, Table 4, p. 12; and Pfaller, Alfred: Gesellschaftliche Polarisierung in Deutschland, WISO Diskurs, Friedrich-Ebert-Stiftung, Bonn 2012.

4. This research programme is being developed by WIFO together with 32 partner institutions. See www.foreurope.eu.



This model should not be put on the backburner as a result of the need to consolidate budgets. It has been forgotten that consolidation is only one condition of a strategic growth policy. Even during consolidation, however, the focus of the cuts and the level and structure of expenditure determines whether in the next five to ten years a new growth strategy can be realised within the framework of the EU 2020 Strategy. Germany can and must be a role model in Europe with regard to more social and more environmentally sustainable growth in the development of this path.

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