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Matthias Knuth

Winners, losers, and the question of solidarity

Journée en l'honneur de Jean-Claude Barbier

Diversités et solidarités : vers une sociologie comparative de la protection sociale

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The current dramatic economic imbalance within the Euro zone is one of the best-predicted crises we have ever witnessed. As the project of the Euro was emerging, the few non-mainstream economists that had survived in Germany pointed out the consequences of suspending the exchange rate mechanism between national economies developing at different speeds. This criticism, which anticipated the current problems of the south, did not receive much attention. The Euro project was not exactly popular in Germany, but the principal apprehension was about price stability and Deutschmark nostalgia.

Nevertheless, the Euro was pragmatically accepted, and it is commonly believed that the Kohl government was obligated to the project from its beginnings in return for Mitterand's acceptance of the German unification. Pragmatic German acceptance in spite of apprehensions can perhaps also be explained historically. In the German historical experience, it is normal that tariff and monetary integration would precede political integration. The German Customs union preceded the Empire; the Deutschmark in the three Western zones preceded the German Federal Republic; the introduction of the Deutschmark in East Germany preceded political unification. The latter is a classical example how economic integration first exposes economic imbalances which are then compensated by financial transfers made possible and legitimate through political integration. From this experience, it seemed logical that the introduction of the Euro would speed up European political

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integration and lead to the establishment of institutional mechanisms that could deal with the economic problems a single currency might imply. And, until May 2004, things seemed to develop in exactly this direction.

From Jean-Claude's writings we can learn about the pitfalls of taking differences in language, of proverbs and sayings, of historical experience, of the conceptual framing of issues, and therefore of political discourses within the European member states as merely technical 'white noise' that will disappear as institutional 'networks' become perfected. Decisions of voters are strongly influenced by collective memories and coined phrases the origins of which are not necessarily explicit to the person using them and adhering to them. For example, in the German collective memory, 'printing money' is the ultimate threat to ordinary people's savings, and trying to fill a 'bottomless barrel' is synonymous to utmost stupidity.

If the German government were to explain to the public how much Germany is benefitting from the undervaluation of the Euro relative to what a national exchange rate would be (Mazier und Petit 2013), plus from the current ability to issue government securities at interest rates around zero, and if there were any visible and credible programme of economic reconstruction in the troubled countries – that is, a 'bottom to the barrel - , and if they would frame this using historical German experience as examples, I think much more redistribution of financial resources within the Euro zone would be accepted. What would be needed is a programme that would directly help people in troubled countries rather than just saving banks and the financial assets of those from whom governments have to borrow the more the less they collect from them in taxes.

The German Trade Union Confederation has proposed a 'European Marshall Plan'[1] with investments of 150 billion Euros annually for energy reconversion, transport infrastructure, water resource management and housing modernization to be partly financed from taxes on financial transactions.

The term 'Marshall Plan', reminding of the European Recovery Programme after World War II, is not chosen by chance. I have no idea whether it has the same positive ring in your language – it probably hasn't in the languages of most of the countries currently concerned, because still under dictatorships they were not part of the plan, which is a shortcoming of this idea.

In the German collective memory, however, the Marshall plan is enshrined as an economic re-start, as incentivizing own initiative rather than imposing prescriptions, and also as a symbol of forgiveness. This is why Germans might accept transfers if it is for something called a 'Marshall Plan'. Even if we admit vested own interests on the part of the donor - be it with regard to the historical Marshall Plan or a future one - it makes a huge difference whether those who happen to be powerful at a given point in history **invest** in those who happen to be weak at the moment or whether they **punish** them.

Regrettably, this proposal has gone largely unnoticed in Germany, which reflects the political weakness of the German trade unions, and it is probably totally unknown in other European countries (which is why I mention it here). Instead, the European Commission has issued a proposal for a **'convergence and competitiveness instrument'** (European Commission 2013). According to German newspapers, 10 billion Euros have been agreed for this instrument so far. Since billions are beyond a sociologist's imagination, I need comparisons to understand them: The current flooding in South and East Germany – not to speak of neighbouring countries upstream or downstream – is estimated to have caused 11 billion in damages.

In return for allotments from this little basket, member states would have to accept **'contractual arrangements'** in which they commit themselves to implement 'structural reforms for competitiveness and growth' within certain timelines. Since the Commission cannot fully ignore the existence of such impractical and outmoded institutions as national parliaments, it is said that these should 'timely and actively' be involved, and the question is posed blandly how this should be done. Normally, in democratic societies protecting minimum standards of equality, the notion of a 'contract' implies a convention voluntarily entered by parties equally free in their decision. Where structural imbalances of power are obvious, regulations have been put in place supporting the weaker party, like in labour law or with regard to the protection of tenants. Here, however, an insufficiently legitimized institution – let us admit, the lack of democratic legitimization is not exactly the European Commission's own fault – is envisaged to enter "contractual arrangements" with member states who have hardly any choice, with national parliaments 'involved' – which literally translates, if I may go back to the Latin roots of the word, as 'being taking into the spin'.

Nowhere does the Commission's communication say which reforms would be expected in return for what is called a 'solidarity funding mechanism'. It is probably seen unnecessary to spell this out because it is taken for granted that by now everybody in Europe knows what is meant by 'structural reforms for competitiveness and growth'. No possibility of disagreement or debate about the kind of reforms and their necessity is acknowledged in the Commission's paper; it is only admitted that without the financial grease there might be delays. Indeed, in relation to the wealth European economies still represent, few dictatorships in history have been acquired so cheaply, for the price of a few days' rainfall.

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[1] DGB Confederation of German Trade Unions, Executive Board, Dept. of Economic, Financial and Fiscal Policy 2012

We do have our specific experience in Germany with reform narratives. The Hartz reforms were prepared by success stories primarily from Britain, Denmark and the Netherlands, highlighting institutional features that partly were never real, partly have been abandoned in these countries since. Now the tide has turned, the erstwhile 'sick man of Europe' (Sinn 2003) appears to have become the champion, and, as one of Germany's less polyglot politicians happily noted, "Europe speaks German now". In other words, you now have to endure German reform stories, maybe for some years to come: Don't take anything at face value.

- Yes, from the mid-1990ies on, unemployment in Germany had been largely decoupled from economic activity, remaining at high levels even during growth periods; after the dotcom bubble burst, the situation became dangerous and called for action.
- Yes, unemployment is now down to the levels of the early 1990ies, before unification took its toll (which was considered 'mass unemployment' at the time). And yes, employment numbers and even more the employment rate are at a historical all-time high.

Without further explanation, this temporal coincidence is taken as proof by many that it was the reforms that restored 'competitiveness and growth'. How exactly the reforms should have accomplished this is not discussed.

We do not have the time to do this now – so let me just point out some quite simple facts:

- Since 2005, the population of working age has been declining. As was discovered last week as a result of a recent census, it must have declined even more than we knew: 1.5 million presumed inhabitants are missing, 1.1 million of these non-nationals, which largely explains the phenomenon.
- Except for the shock of 2008/2009, growth was steady since 2006 but hardly at rates superior to the pre-reform period (Klinger et al. 2013).
- Since 2007, the volume of work has deviated from its long-standing declining path and seems to be stabilizing. In the absence of extraordinary economic growth, this implies a slow-down of productivity (Klinger et al. 2013). For employment levels, this is favourable in the short term; whether it is a good thing in the long term remains to be seen.
- Without growth in the volume of work, employment growth is effected by distributing work among more people. This is not a bad thing as such; it could even be a solidaristic achievement. However, working time is distributed very unevenly among jobholders in Germany. Through re-regulation of marginal employment – since then called 'mini-jobs' – the reforms triggered a boost of these jobs between 2004 and 2007. However, similar periods of rapid growth in small jobs can be observed before the reforms.

- Yes, wage increases have been very low until recently, real wages have declined throughout several years, and the lagging behind of German per-unit wage costs is one of the reasons for European imbalances (Stein et al. 2012). These developments were obviously supported and augmented by the Hartz reforms which intimidated workers (Erlinghagen 2010); however, the trend began several years before the reforms, as did the growth of the low-wage sector (Kalina und Weinkopf 2012) - whose relative size is now only surpassed by the Baltic states, Poland, Romania and Cyprus (Schulten 2013).
- But these jobs are not in the export industries, at least not directly. Do German exports really depend on low wages in outsourced cleaning, catering and security services? – It has been argued and demonstrated in simulation models that by starving the domestic market Germany is foregoing more employment than it is gaining through export surpluses in foreign markets (Joebges et al. 2009).
- It appears that Germany's currently relatively strong position in the global market depends less on any numerical relations like wage costs but more on qualitative factors like the product portfolio: Rooted in lines of technological development the foundations of which were laid more than a century ago but carried to perfection and tailor-made to customers' purposes, the German portfolio of investment goods and of technical luxuries matches the demand of newly industrializing countries. This link has become so strong that the government now prioritizes economic relations with China over European economic relations, as the moderating reaction to the European solar anti-dumping initiative has shown. Whether this will prove to be a sustainable strategy in the long run seems questionable.

The overall theme of the 'structural reforms' looming in the European Commission's proposal is rendering labour markets more 'flexible', which in practice means giving employers more discretion over how to utilize or not to utilize labour. Yes, there were some elements of this in the Hartz reforms.

However, the most striking example of the 'new resilience' of the German labour market, the maintaining of employment levels through a 5 per cent slump in GDP in 2009 (which internationally led to the discovery of the 'German job miracle') had nothing to do with external numerical flexibility. It was based on

- working-time flexibility negotiated by the social partners,
- with public support of their endeavours through the very traditional instrument of short-time allowances,

- and on the optimistic, but in retrospect realistic expectations of export-oriented employers that the crisis would be of short duration and that workforces would soon be needed again.

If the Hartz reforms played any role in this, it was through curbing early retirement at public expense and through intimidating workers and raising their willingness for concessions in return for job guarantees.

All that seems to remain, then, of the Hartz reforms is a re-coupling of the economic cycle and the re-employment of the unemployed. A good part of this may be explained by the abolition of pre-retirement-type unemployment, i.e. of unemployment accepted more or less voluntarily as a path of entry to an early pension.

However, this greater fluidity of unemployment is largely restricted to those jobseekers still enjoying unemployment insurance benefits; the hard core of long-term unemployment and long-term benefit recipiency has hardly been reached by the reforms.

It is our responsibility as researchers engaged in European and further international comparison to destroy biased reform narratives and to insist on what is really happening.

But this is not enough: An even more challenging task would be to restore to the term ‘reform’ the dignity and attractiveness it deserves and to make the active shaping of the future of our societies something people can engage in with hope rather than turning away in fear.

I am afraid we are far from this.

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