

Is the German strategy applicable to other Eurozone countries?

Joël Hellier

Based on: 'Insertion into globalization: Is the German strategy exportable' Working Paper, (with T. Beissinger & N. Chusseau)

Is the German strategy applicable to other EU countries?

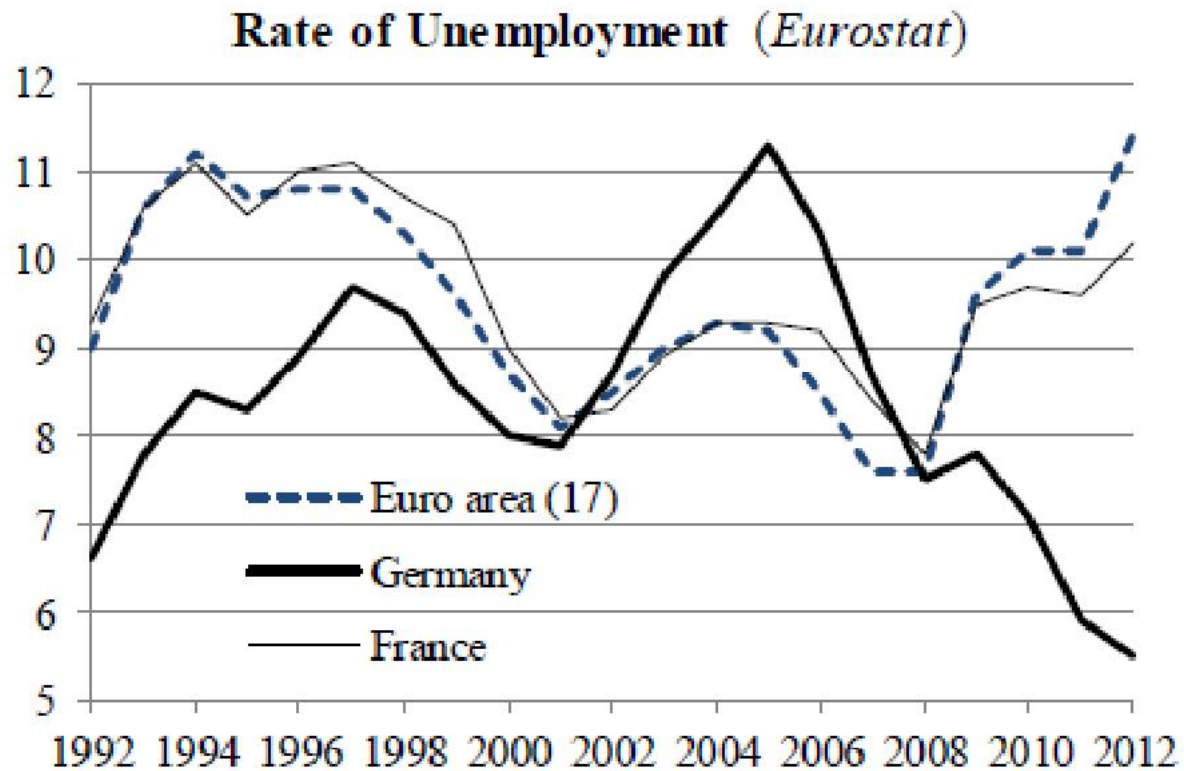
- 1) Germany does better ... since 2006
- 2) The 'standard' explanation
- 3) The facts
- 4) The 'Outsourcing - Labour market reform' scenario
- 5) Is it applicable to other Eurozone countries?
- 6) Is another strategy possible?

1) Germany does better ... since 2006

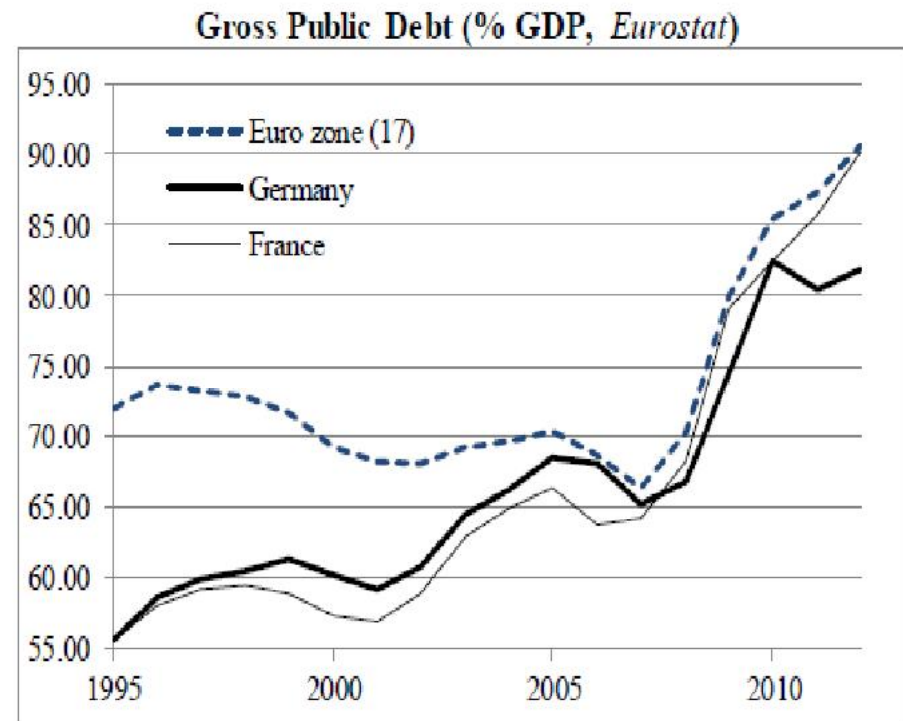
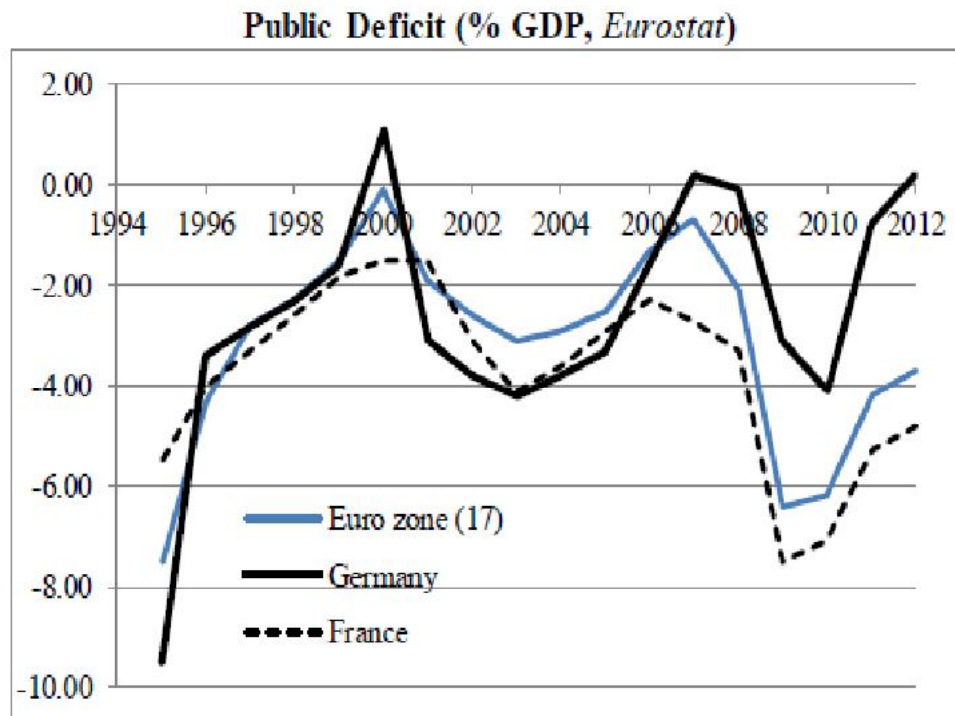
1. Growth is higher in Germany



2. Unemployment is lower and it has decreased



3. The public debt and budget deficit are lower & have decreased



... since 2008

Since 2005: implementation of the Hartz reform (2003-2005) by G. Schroeder

Main measures:

Hartz II, 2003: 'Mini-jobs' with lower tax and social insurance payments.

Hartz IV, 2005:

Ⓜ Decrease in the duration and amount of unemployment compensation.

Ⓜ Commitment to accept any job even if this does not correspond to the skill level.

Ⓜ When these are low-paid mini-jobs, the recipient can combine unemployment compensations with the income from her/his job until a certain level.

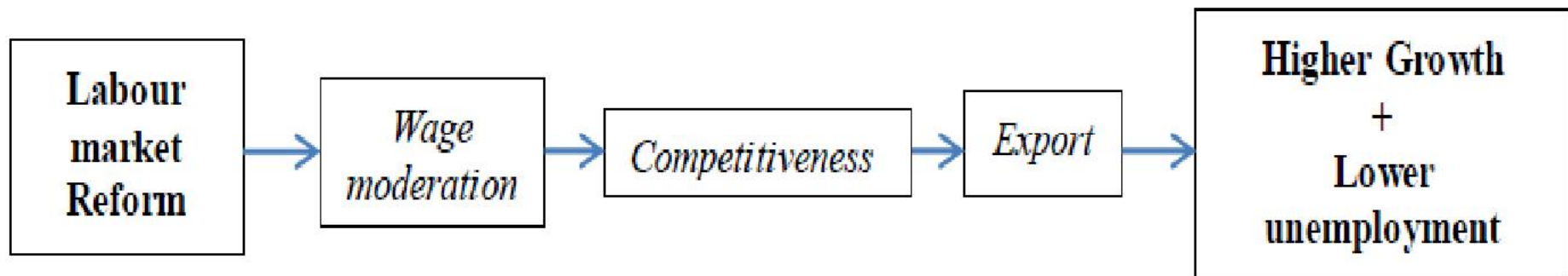
- è Lower public expenditure for unemployment compensation and social assistance
- è Less generous State subsidies for the unemployed
- è Strong incentive to search for and accept vacant jobs

è The huge improvement of the German economic situation from 2006 followed the implementation of the Hartz Reforms in 2003-2005.

® The ‘Standard explanation’

2) The 'standard' explanation

The LWE (Labour market reform + Wage + Exports) scenario

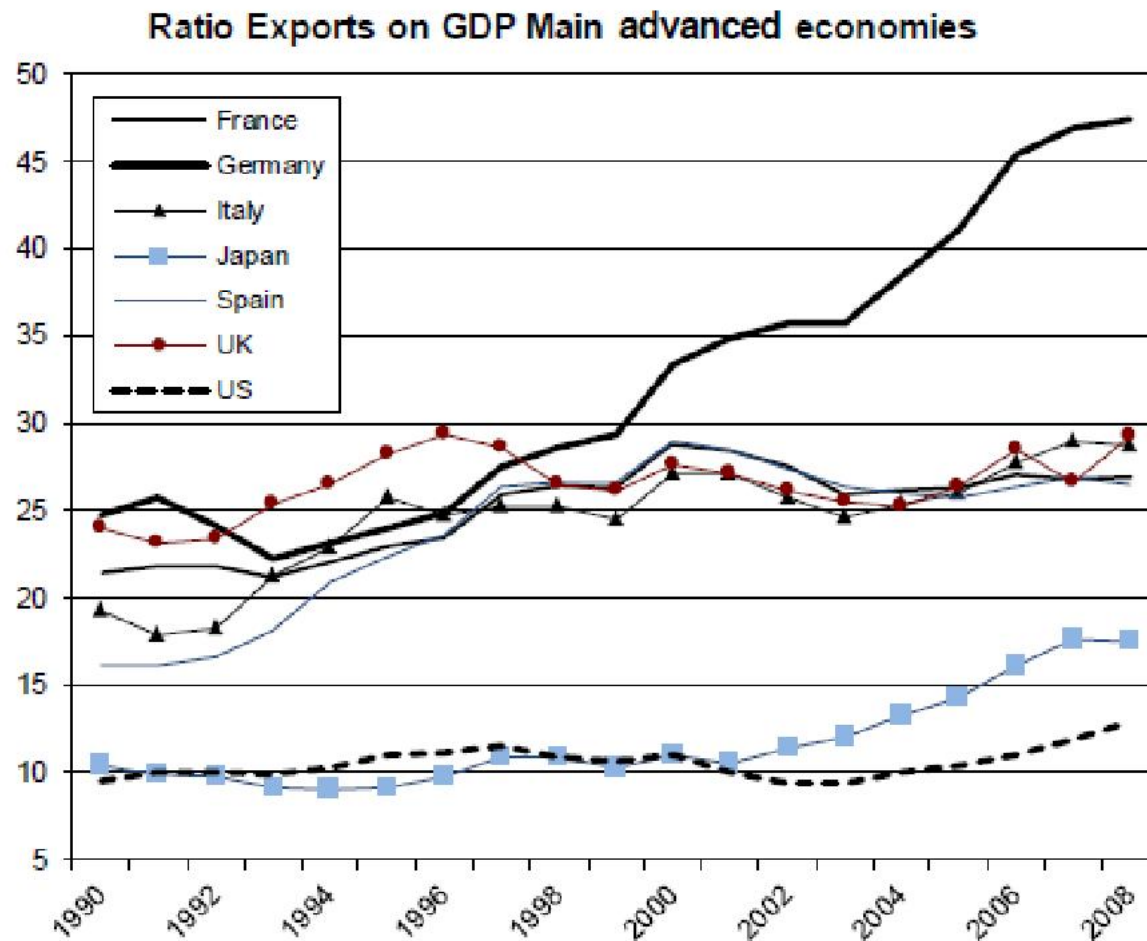


But:

This story is at odds with the sequence of observed facts...

3) The facts

1. The increase in exports began before the labour market reforms





The higher the X/M ratio, the higher the Trade surplus
Improvement: 2000-2005; From 2005: lower surplus

The proposed explanation:

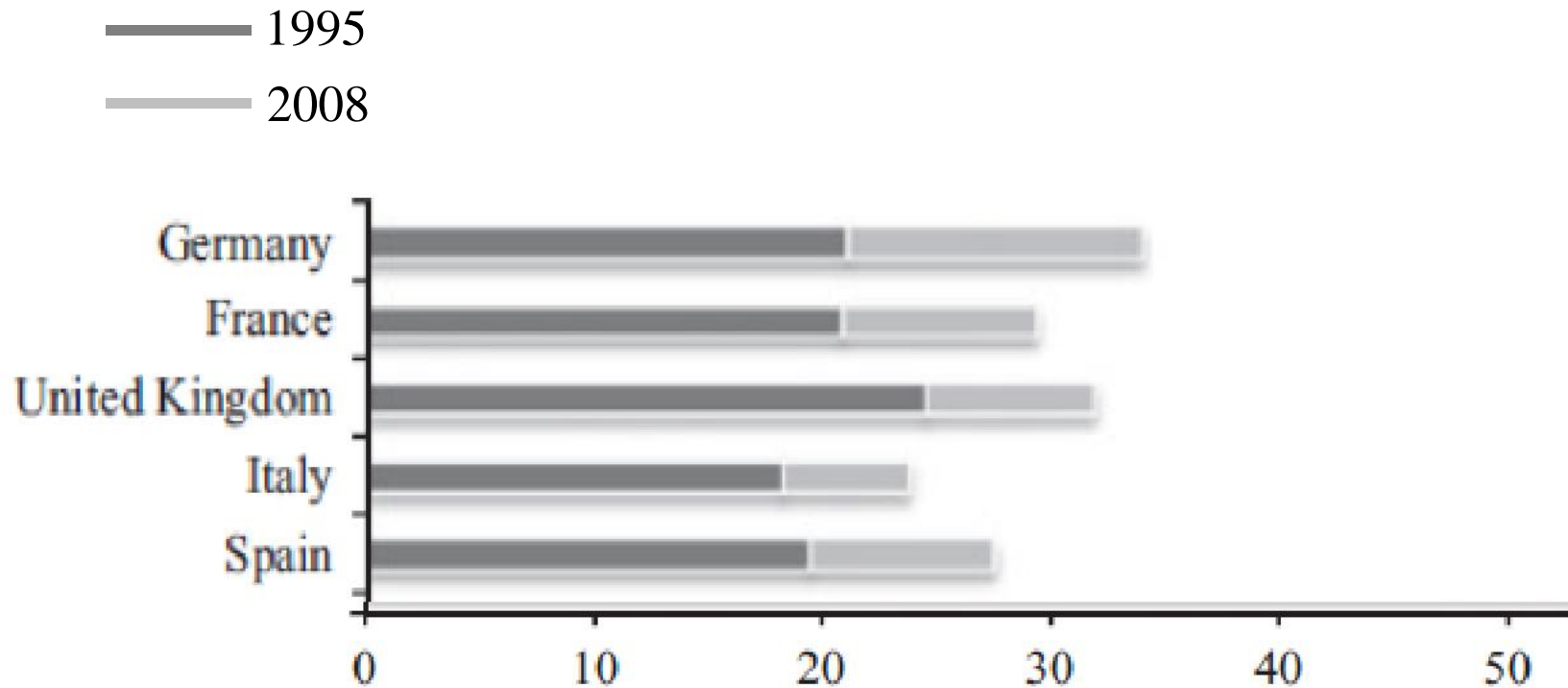
Based on the large offshoring of low-skilled and medium skilled stages of production implemented by German firms from the mid 1990s.

Offshoring ® Higher competitiveness, higher exports and growing unemployment

Response of the Government = Hartz Reform

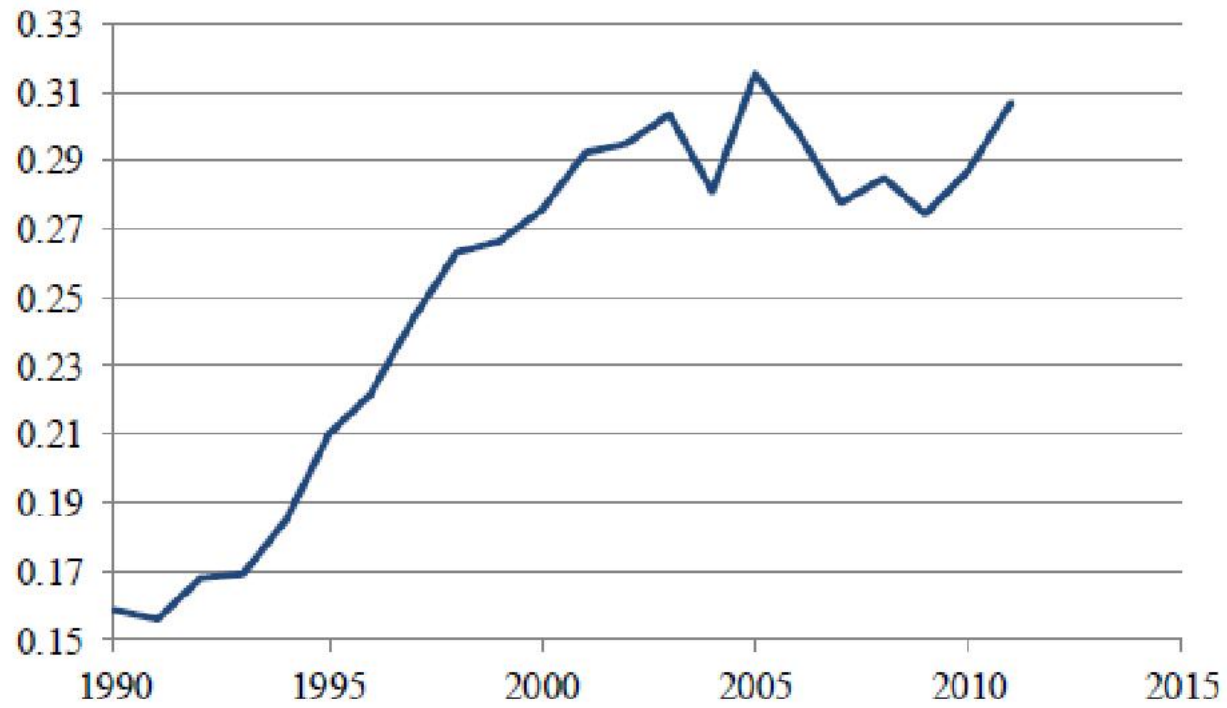
® Lower unemployment through the increase of non-tradable services + Inequality .

2. A large outsourcing (offshoring) of the unskilled-intensive stages of production in manufacturing (particularly from the CEECs) since the mid 1990s.

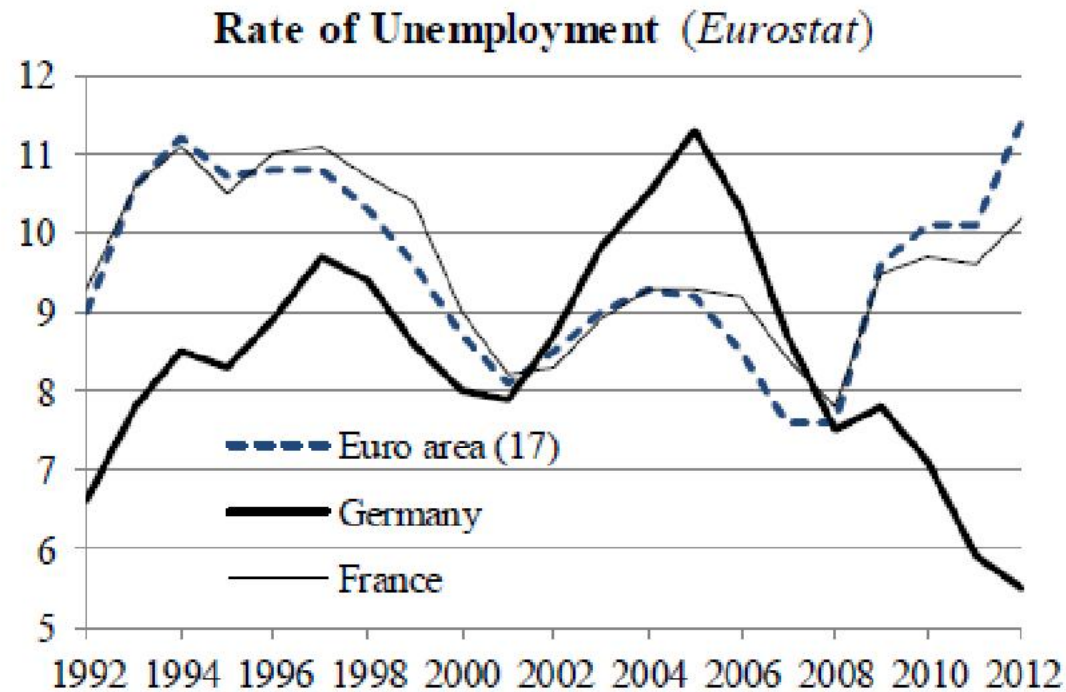


Imports as a % of intermediate inputs utilised in Manufacturing in 1995 and 2008
(Timmer & al. 2013)

**Share of Intermediate goods in
Imports from EU new members (CEPII)**

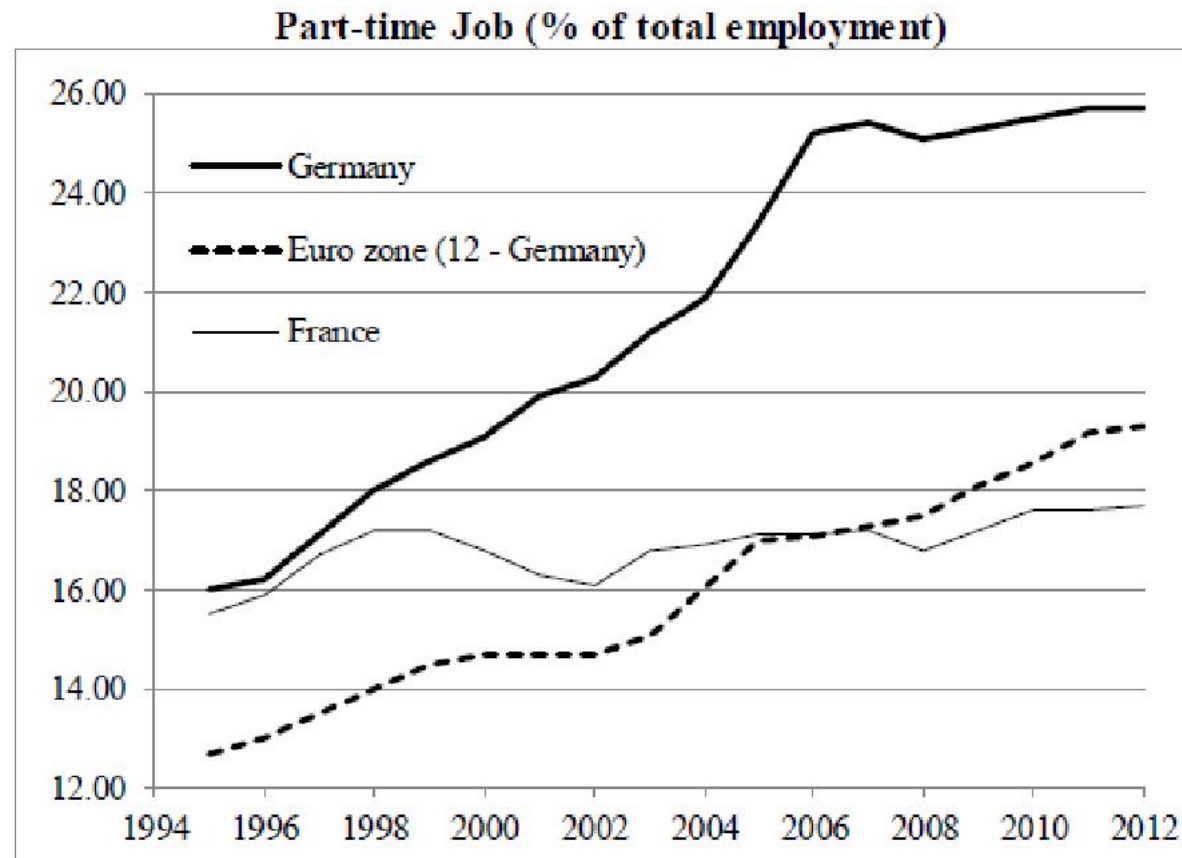


3. Outsourcing has come with growing unemployment



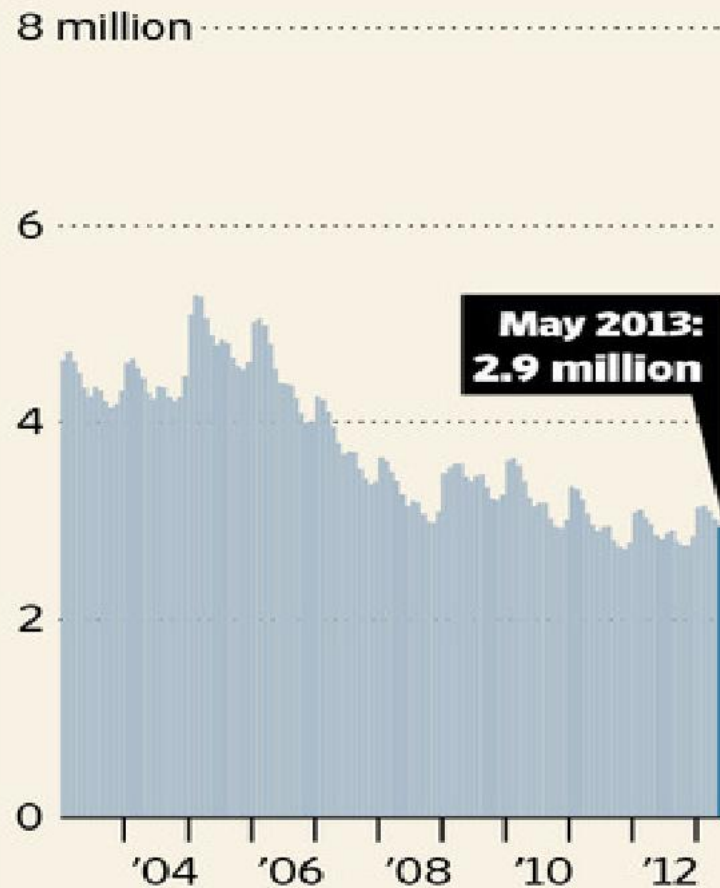
4. The Labour market reforms were implemented in 2003-2005, as a response to unemployment.

5. The Hartz reforms have created a large amount of jobs and mini-jobs in the non-tradable services, with an increase in inequality and in the number of working poor.



Dark Side of the Boom

Unemployment has fallen sharply in the past decade...



Source: Germany's Federal Employment Agency

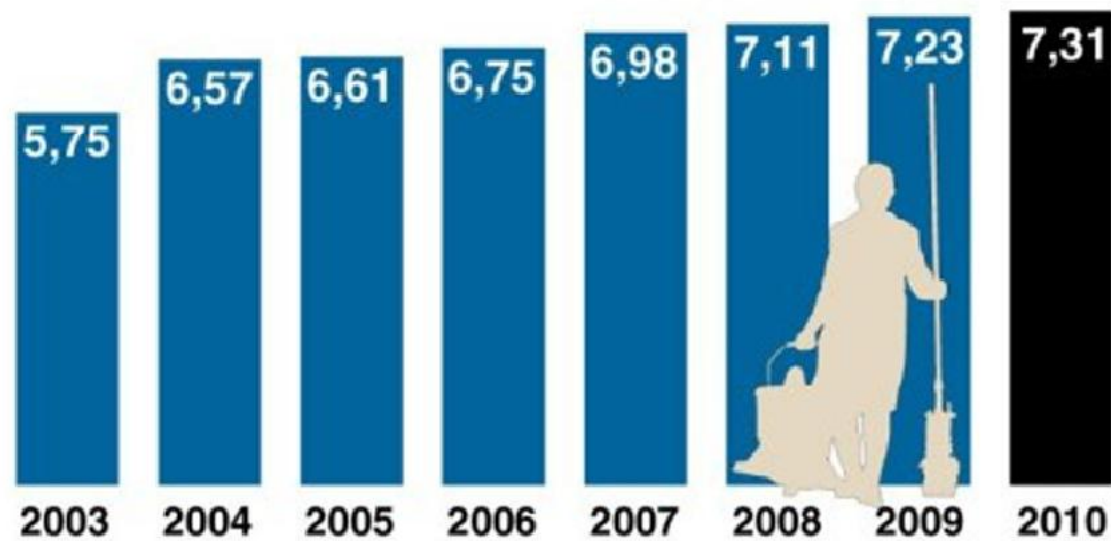
...but more people are taking low-paying 'mini-jobs'.



The Wall Street Journal

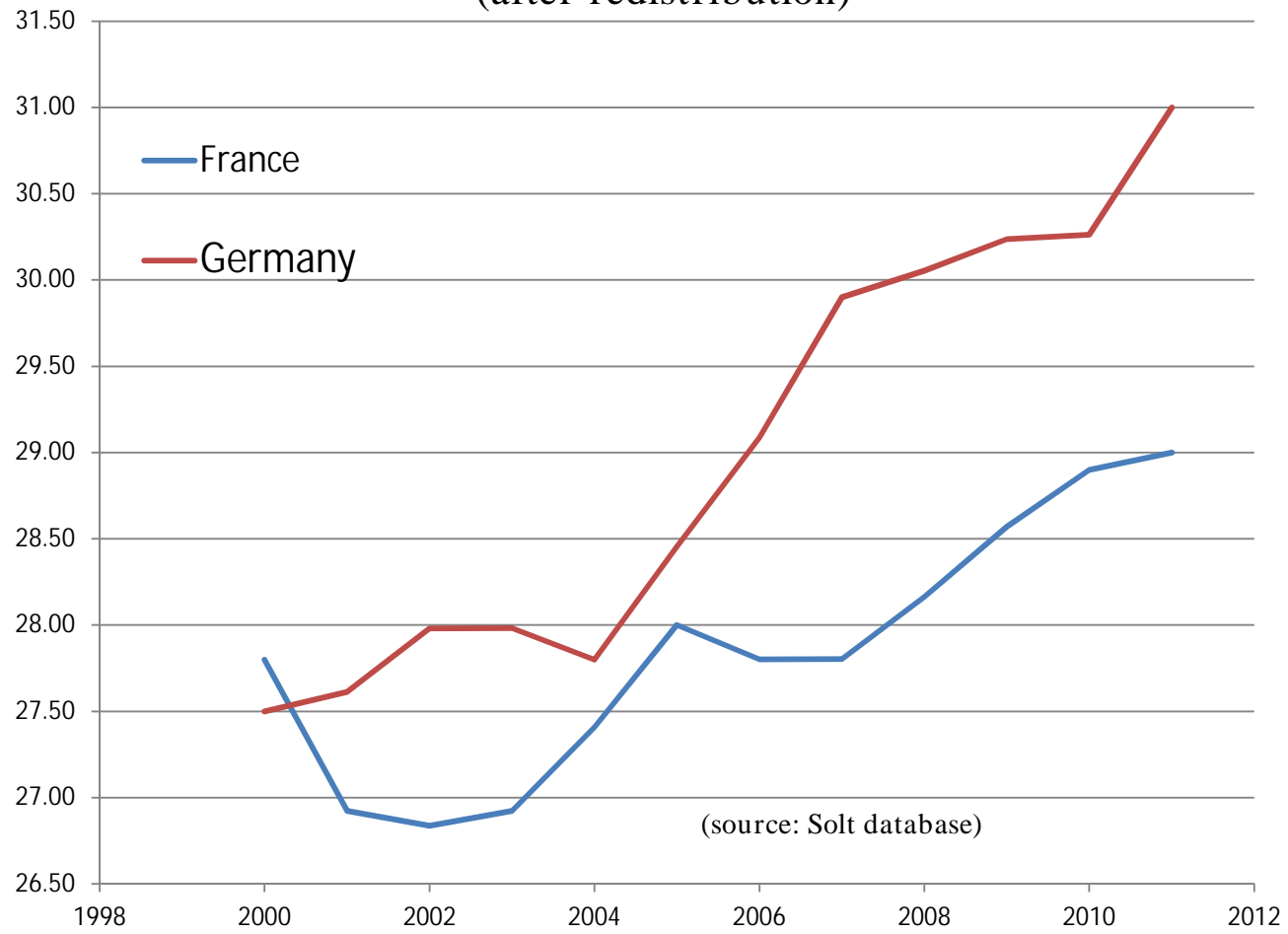
Minijobber

Geringfügig entlohnte Beschäftigte in Deutschland
jeweils Ende September in Mio.



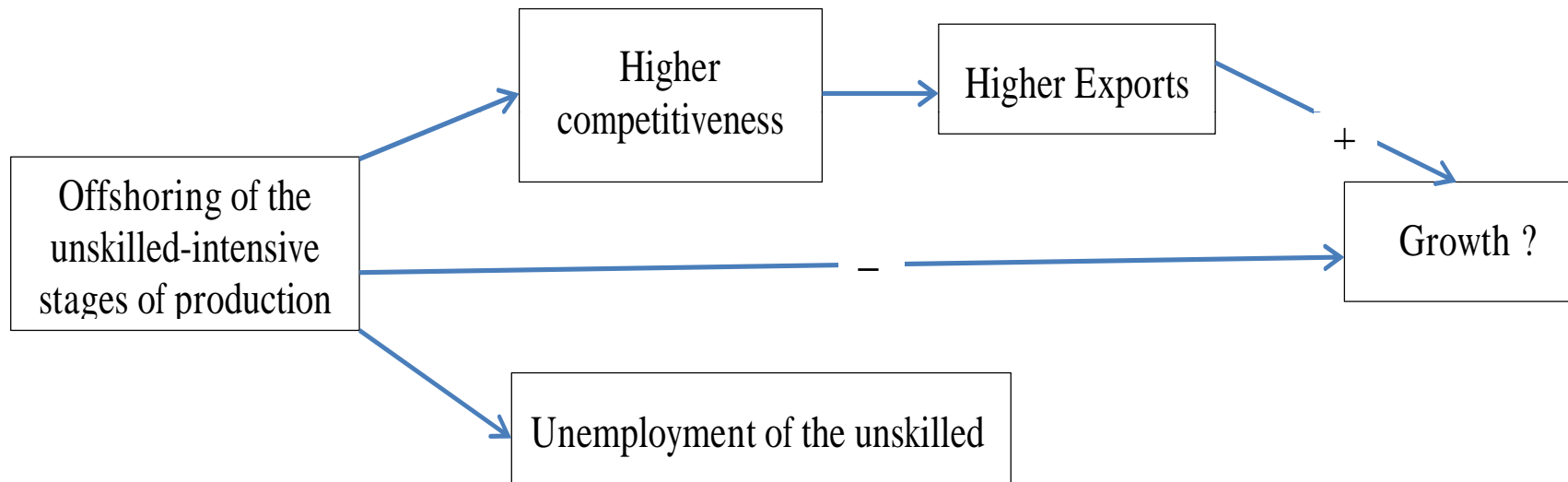
Quelle: Bundesagentur für Arbeit

Net Gini coefficient (after redistribution)

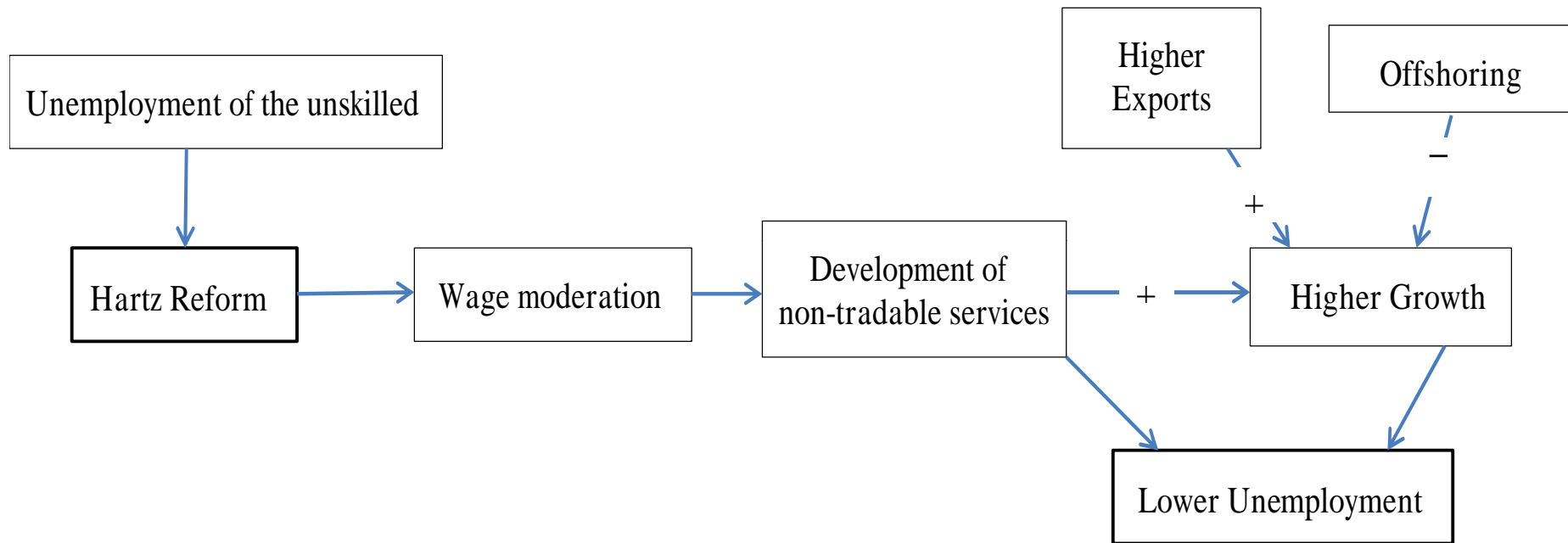


4) The 'outsourcing - unemployment - labour market reform' scenario and its outcomes

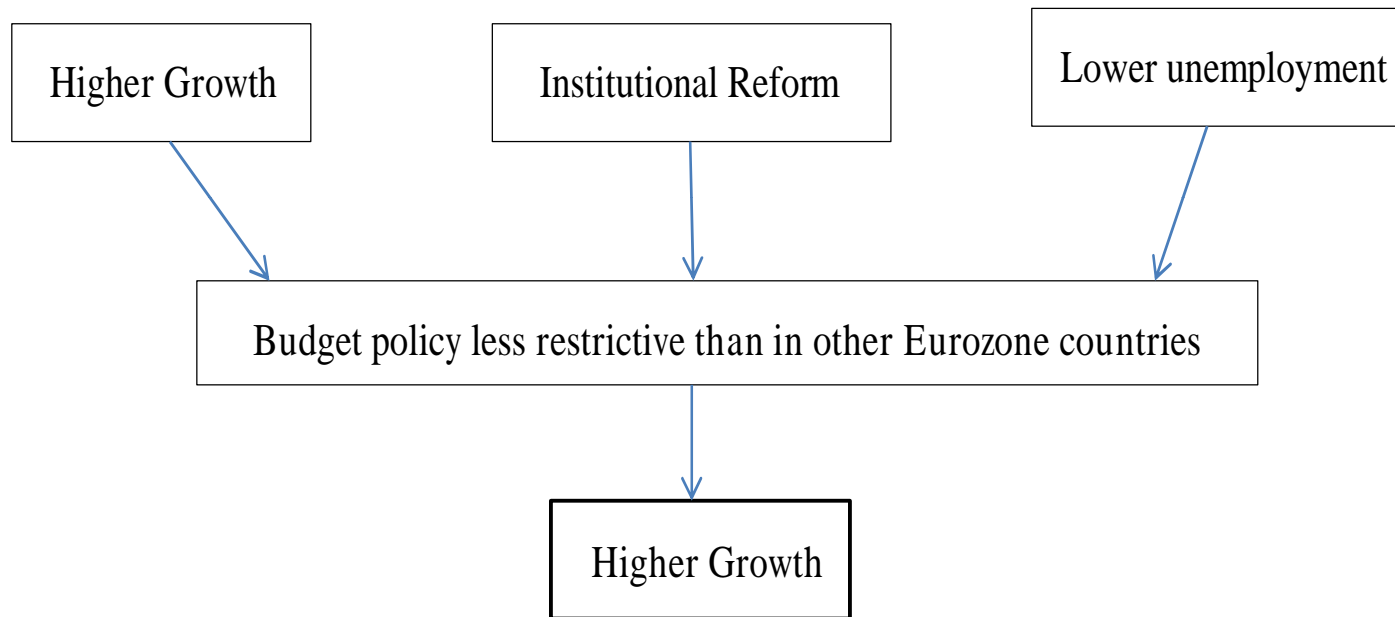
1)



2)



3)



5) Is this strategy applicable to other Eurozone countries?

Yes, but ...

1. Its impact is less powerful when it is implemented in all countries

2. It will result in higher inequality and higher poverty, particularly in countries with a rather high proportion of unskilled workers.

3. In the longer term, higher inequality and more poverty could prevent education and skill upgrading, which are the only remedies for unemployment in the longer term.

4. Germany will anyway benefit from the premium due to the facts that it was the first to outsource (the sunk cost have already been paid): the first country that set this strategy wins more!

5. The CEECs are particularly beneficial for Germany, and it could be difficult to find the equivalent for other EU countries.

6. In the long term, the labour cost in the CEECs could increase as it has happened for Southern Europe, and this will jeopardise the ‘outsourcing’ strategy.

6) Is another strategy possible?

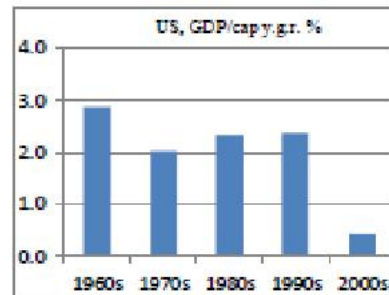
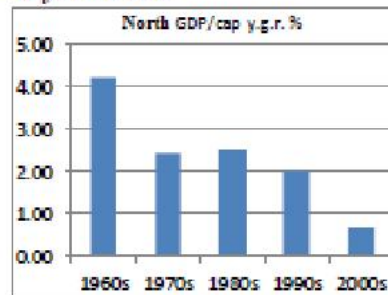
Yes...

è In the longer term, it is education and training, but this typically takes time and it could be counteracted by the short-term strategy.

è In the short run, the goal is to develop non-tradable services ... But there are other ways to lower the cost of non-tradable than the decrease in wages.

Growth rates by decade

7. Evolution des taux de croissance *Pays avancés*



Pays émergents

