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A Crisis? Maybe, But Look Again

Economy Works Despite Problems

By Josef Joffe

MUNICH — All the clichés about the German economy are correct. Payroll taxes — about 80 percent on top of wages — are too high. So are income taxes, so are government expenditures. As share of the total economy, the latter have risen to 52 percent, which is almost twice as much as in 1950.

Wages are only upwardly flexible; there are no "give-backs" and no significant differentials between poor and rich regions, as in the United States. Labor markets are more rigid than icebergs; German entrepreneurs can hire but they can't

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fire — unless they go to court, where they lose more often than not, or pay handsome severance fees.

Hence, there is a built-in incentive for underemployment. Why buy trouble if you can pay overtime?

German workers don't move from areas where the jobs have departed. Lavish subsidies for declining industries like shipbuilding, coal or agriculture, keep dead jobs alive. An all-providing state hands out enough welfare to keep people comfortably on the dole. Hence, a rational player would rather stay at home than work for, say, 15 Deutsche marks an hour ($8.50).

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This has bequeathed to the German economy an unemployment rate of around 11 percent. The real rate is closer to 14 percent, if retraining programs and state-subsidized jobs are counted. Hence taxes keep rising, and unemployment, too. This is the vicious cycle of the munificent welfare state.

And yet all these truisms require a second look. Go to Germany, and you will not find visible poverty as in the slums of Detroit, Paris or Liverpool. The paradox is not hard to crack. Germany is by no means a full-employment economy. But it is a full-income society. If you add welfare for a family of four to what mom and dad can earn part-time in the growing "shadow economy," the sum total could easily reach 4,500 DM monthly, or 54,000 DM a year. That is take-home, mind you.

That explains the absence of real poverty as well as the crucial stability of aggregate demand. And so, growing unemployment does not engender a snowballing economic crisis.

But there is more. Let's call it "the secret of the camel." This double-humped creature is ungainly, with a lumbering gait and a screechy voice; it smells and seems always to be dozing off. But it is the fastest animal in the desert, with an incredible endurance, and it delivers meat, milk, leather and wool.

The camel is a useful metaphor for the German economy, or "Rhenish capitalism." It is beset by all the failings noted above, and yet it keeps delivering. For instance, this year, growth will end up at 3 percent — not bad when compared to the other advanced economies of the West.

Or look at it this way: After the friendly takeover of East Germany in 1990, aka reunification, the federal government

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has been pumping about $80 billion annually into the East. That is what the entire Marshall Plan bestowed on 15 West European countries over three years. An economy capable of so gargantuan a handout year after year must produce a lot of "surplus value," as Marx would have put it.

German workers work fewer hours than anybody else in the OECD world. And yet, when they do, they probably work harder than anybody else, too. Productivity in Germany grows at about the American rate — not great, but not dismal, either.

Let's look at the stock market which doubled in the last 18 months, and at corporate profits that keep soaring, too. Surely, this twin rise reflects the same fundamental trends as in the rest of the West: downsizing, "lean production," ruthless modernization, outsourcing at home and abroad. In Germany, though, you don't see the fallout so clearly because the losers enjoy a soft landing in a tight-meshed welfare net.

How about the "concentration of capital," to use another Marxian shibboleth? "Hostile takeovers" are *verboten* by habit and tradition, so when Krupp tried to grab Thyssen earlier this year, the nation rose up in arms. Now that the merger is "friendly," there is only one issue left: Who gets to be the boss of the fused duo, the guy from Krupp or from Thyssen?

The German banks are lazy and fat, right? Look again. Though they slept through the 1980s, when Wall Street went through an orgy of mergers and acquisitions, takeovers and restructuring, there isn't one German megabank left now which hasn't acquired a U.S. or British investment house in order to catch up.

The camel always requires a second look, and so does "Rhenish capitalism." On the surface, Germany never moves, and it seems to obey an unwritten social contract that says: "Nothing must change — social peace *über alles.*" But how the country really works is nicely illustrated by the following true story.

A visitor, arriving after 5 P.M. at BMW headquarters in Munich to visit a highly placed personage on the penthouse level, rises in his elevator through floor after floor cast in darkness and eerie silence. His host explains: "The Betriebsrat (works council) has nixed after-hour work and overtime."

So how did BMW manage to compete so well with U.S. and Japanese carmakers if its engineers have to shut their computers at 5 P.M. sharp? "They take their disks home and continue there, which no Betriebsrat can forbid. Because they know that the health of the company, and their jobs, depend on it."

The moral of the story? The camel is smarter than it looks, and it is wise about the ways of the desert.

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