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A Successful Kind of Capitalism *On the unbroken resilience of the German economy - By Werner Abelshauser*

The global downturn has hit Germany, an exporting economy, particularly severely. But the country's social economic model, which differs from standard capitalism, will allow it to successfully overcome the slump.

For many observers at home and abroad, the resurgence of the West German economy after the collapse of 1945 was a miracle. But there were concrete reasons for the surprisingly fast recovery.

For many years of the postwar period, West Germany had excess production capacity that only gradually became depleted at the start of the 1960s. During this reconstruction period, the West German economy was operating at full tilt and did not encounter any limits to growth.

In 1945, fixed assets were significantly larger, younger, more efficient and more modern than before the war. The Allied bombing campaigns had mainly targeted the civilian areas of German cities, leaving the productive industrial core largely unscathed. In addition, there was a massive overcapacity of qualified labor, recruited from the millions of expellees and refugees from the east. And finally, the United States had the will to use this reservoir to stabilize Western Europe.

Germany was poor but not underdeveloped.

Most people at the time were unaware of these circumstances, so the big political concepts like the Marshall Plan, the new currency and the ideology of the social market economy soon took on the role of explaining the inexplicable.

Historians have since adopted a different view. The first deliveries from the Marshall Plan did not reach German ports before 1949. They came too late and were too insignificant to make a decisive impact on the process of stimulating the economy. It was a similar story with the social market economy, the German model of economic policy. It took many years for the concept to establish itself at least in the core sectors.

In 1948, the goal of a competition economy was still only theory. In the 1970s, economists and historians reassessed the impact of the 1948 currency reform, concluding that it was necessary but not sufficient to unleash the economic boom. Nevertheless, this myth would have far-reaching consequences for the process of German reunification half a century later.

Myths can generate their own reality. Most Germans still see the currency reform of 1948 as the real birth date of the Federal Republic. They identified the quality of the body politic with the stability of their currency.

Indeed, since the mid-1950s, the German mark's status as a hard currency was integral to Germany's impressive economic and political achievements: the early repayment of pre- and postwar debts; the reparations to Israel and victims of the Nazi regime; the status as the world's leading exporter; the great freedom of action in foreign policy - notwithstanding the gaps in German sovereignty; the financing of the European integration process; the breaking of the U.S. hegemony over the global currency system through the establishment of a European currency system anchored by the German mark.

Paradoxically, the German mark also pushed forward the German unification process, which in turn brought about the political demise of the West German currency at the European level. In the end, the German mark bequeathed many of its successful elements to the euro. Truly, it was a currency with a life well lived.

The myth of currency reform was also persuasive enough to convince people in East and West Germany that the economic upswing of the postwar period could be replicated and that a second economic miracle would result from the 1990 reunification. This misinterpretation of the currency question ignored the desolate state of the East German economy - its hopeless debt burden, the obsolescence of its fixed assets and the inexcusable neglect of its innovative potential.

The economic miracle is not responsible for the strengths of the current German economy - if anything it was the root cause of its weaknesses.

The post-industrial, immaterial production mode that dominates in Germany today emerged more than 100 years ago. It concentrated on the markets for "diversified" quality products, the post-industrial, made-to-order quality that still underpins Germany's reputation and lasting success on the global market − intelligent machines, complex industrial and infrastructure plants, high-quality technical applications and process engineering in every sector, as well as high-quality vehicles.

This status on around 40 percent of world markets, unchallenged for many decades, requires a number of conditions. A high level of science-based knowledge, productive state economic policy, cooperative organization of the economy (in "clusters") and a broad-based, highly qualified labor pool from skilled workers to entrepreneurs.

The main characteristic of this mode of production is an asymmetric distribution of knowledge within companies. Immaterial production is usually based on specific knowledge that is not easy to replace and whose productive implementation in the work process is not easy to monitor. The optimum performance of a worker cannot be exactly contractually delineated, nor can corresponding work contracts be monitored and implemented at a maintainable cost (the "principal-agent problem"). In the necessity of solving this central problem of the post-industrial mode of production lies the economic root of the concept of worker codetermination in company decision-making, which to this day has remained a unique aspect of the German economy.

But this German model also faces fierce criticism from those who say it is too inflexible and too expensive given the pressure of global competition. They claim the high costs for labor and the social welfare state reduce Germany's competitiveness and are responsible for the mass unemployment that has persisted since the 1980s.

The German national economy does in fact suffer from a structural problem - a lack of qualified labor alongside a surplus of unskilled workers. That fact defies all productive application within the framework of the German production regime, within which the most important export branches - engineering, chemicals, vehicle production and electro-technology - derive the majority of their value creation from production based on scientific research.

There is hardly any demand in Germany for low-skilled labor - around 30 percent. This group is even less able to compete in the global workforce. That is the central cause of German mass unemployment.

The economic policy disorder responsible for this plight lies long in the past. The particular conditions of the reconstruction period after World War II promoted the anachronism of material production and made standardized mass production marketable in Germany for the first time. Because the Ford-inspired assembly line production facility required unqualified labor and paid relatively well for it, the attractiveness of professional education suffered.

Targeted recruitment of unqualified foreign workers had a similar negative effect. After the collapse of the Ford mode of production in the 1970s, there were fewer jobs for low skilled workers and Germany was forced to tackle the problem head-on - with great success. The country grew even more into the role of worldwide supplier of diversified quality products, from technically well-engineered sports cars to complete post-industrial production facilities.

Its leading place in foreign trade leaves the country exposed to turbulence in the global economy. But Germany possesses a social system of production that can stand comparison as an alternative
to failed standard capitalism and is presenting itself as a successful variety of capitalism for the period after the crisis. Once already, in the recession that followed the 1970s oil crisis, it proved its resilience.

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Picture above: From "60 Years. 60 Works. Art in the Federal Republic from '49 to '09", an exhibition at Berlin's Martin-Gropius-Bau. The show traces the Federal Republic's history through aesthetic developments in the visual arts. "Tiger" by Gerhard Richter (1965).