

Misreading Germany

*Its strength is in its
boring stability and
political reason.*

BY HOLGER SCHMIEDING

As the pivotal country at the heart of Europe, Germany continues to fascinate and confound its observers. The discussion occasionally oscillates between excessive gloom and equally excessive admiration. Just months after some doomsayers had taken problems in the car industry as a sign that Germany's luck had run out, the world marvels at how Germany has seemed to handle the corona pandemic better than most other advanced countries.

The truth is more profane. Germany is the opposite of such extreme positive or negative views: instead, it remains a stable, slow moving, and reasonably successful country. Its stability rests on two specific traits: the large number of highly specialized and flexible medium-sized *Mittelstand* companies and a federal system that enforces a need to seek consensus. Because of its very checkered history, Germany is also not unlearning some key lessons of history as fast as some other countries. By and large, that is a good thing.

Observers who alternatively see Germany's export prowess and current reliance on specific manufacturing sectors such as the car industry as either the key strengths or weaknesses of its economic model miss the bigger picture. These are not the crucial factors that shape the German economy. Instead, the real drivers are the large number of often owner-led medium-sized companies. Taken together, they are arguably one of the best search engines ever invented. A limited number of big companies may throw big money at some big projects, which may or may not be the right ones. In Germany's highly diverse *Mittelstand*, a huge number of companies directed by the survival instincts of their owners are constantly looking for new opportunities in almost every conceivable direction. The more they do so, the

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THE INTERNATIONAL
ECONOMY

THE MAGAZINE OF INTERNATIONAL
ECONOMIC POLICY

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more such opportunities they will find. It's no wonder that they often dominate tiny niches of the global market.

As long as this search engine for thousands of new opportunities works, Germany can cope with even major structural shifts such as those away from textiles and steel in the past, or now away from carbon-powered cars. Other companies and countries may sometimes be much better at the great ideas. But even then, the German ecosystem of qualified workers, engineers, and *Mittelstand* suppliers makes it an attractive place for companies such as Tesla, which needs reliable quality on top of the initial idea.

Being home to the *Mittelstand* search engine is not a guarantee for a strong economy. When Germany overburdened itself with the costs of unification in the 1990s, companies reacted to the surge in non-wage labor costs by searching for cheaper alternatives abroad. The relocation of jobs in this *Standortflucht* turned Germany into what I called the "sick man of Europe" in 1998. It took until 2003 to achieve a consensus for reform. But thanks to the resulting changes around the Agenda 2010 policy reform, Germany now has a welfare system that mostly works. Despite an ongoing need to adjust to an aging population, entitlements are now largely aligned with the economy's capacity to afford them.

Like its economy, Germany's political system with its sixteen powerful states and the lack of one domineering metropolis is also less centralized than that of other countries, with Switzerland being one of the notable exceptions. Handling the system can be clumsy. But the need for constant dialogue between different layers of government helps to keep the discourse half-rational. That Germany is so far getting through the pandemic better than other countries may partly be due to the fact

that it is not led by a Johnson- or Trump-style strong man who could get away with ignoring expert advice and instead taking a cavalier attitude.

No country seems immune to the perils of populism and the temptations of Trump- or Brexit-style economic nationalism. But relative to almost all of its peers, Germany is less afflicted.

Over time, Germany has learned the very hard way that it is too small to rule Europe and, unlike Switzerland, too big to ignore Europe. Most Germans instinctively know that they can only prosper together with their neighbors, not against them. Support for European integration and an aversion to political extremes result from this.

As time goes by, the lessons of history now shape the German debate less than before. But relative to the populist accidents of having Donald Trump as president in the United States or of Brexit in the United Kingdom, and relative to the current or recent appeal of nasty right-wing populists in, say, France, Italy, the Netherlands, and Austria, Germany remains a repository of political reason. The Alternative für Deutschland party is languish-

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ing below 15 percent. Expect Chancellor Angela Merkel to be succeeded by someone who, steeped in the same political culture, will likely pursue fairly similar policies.

Having saved during its golden decade of the 2010s to be ready for a rainy day, Germany can now shoulder the financial burden of the corona pandemic comparatively easily. Despite some hesitation and internal debate, it is ready to support its less fortunate neighbors with serious amounts of euros.

Like other countries, Germany faces serious challenges. But amid all the change, it remains more stable—may we even say boringly stable—than some observers who focus on selected issues more than the big picture seem to appreciate. ◆