

Who is responsible for Germany's economic Pyrrhussieg

Lessons learned from a marxist reinterpretation of an economic case study

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Introduction

The work of Dustmann *et al* from the Centre for Research and Analysis of Migration (CReAM) of the University College London entitled: "From Sick Man of Europe to Economic Superstar: Germany's Resurgent Economy"¹ which appeared in the Journal of Economic Perspectives earlier this year is a very nice example on what can be learned from the perspective of the emancipatory left concerning key aspects of the current economic crises and beyond, by studying the work of some leading economists of the scientific, established mainstream. Dustmann *et al* may not appear to the non-community reader as residing ideologically on the neo-liberal side of things when just considering an overall rough summary of their main conclusions drawn: it was not thanks to Schröder's "Hartz IV" legislation framework but thanks to the independency of the unions and the companies ("Tarifautonomie"), which managed to reduce wages very efficiently throughout the nineties and with this provided the real basis of the concurrent economic success of Germany. However, one should read very closely through the detailed conclusions drawn from their analysis - from which, as I hope to demonstrate in the following, a lot can be learned for the marxist case - in order to arrive at an ideologically somewhat mixed picture of the economic and socio-political point of view of the authors, whose essential political and ideological key-target of criticism is the designated implementation of a minimum wage-level in Germany by means of state legislation.

It is however, and in contrast to what some might expect at this point, not some evident contradictions, flaws in the economic analysis, a biased selection in the choice of methods (although some aspects need to be pointed out here), nor even the overall questioning of the ideological (economic mainstream) basis of the authors, which provides the critical marxist reader with some ammunition against the author's socio-political case. No, to cut this aspect of the story short, the analysis presented, and the choice of methods applied are economically sound as they can be (leaving aside that a subjective, educated choice of a limited number of methods is even a prerequisite to fly to the moon). The significant and well established empirical results are of much interest to any marxist reader who is interested in global economical developments, i.e. the fate of current days late stage capitalism.

As briefly summarized already, it is the political conclusions drawn by the study from the presented analysis and partially the interpretation of results from a dedicated choice of methods which only reveal the ideological economical mainstream tendencies of the paper. From these empirical results, which I will analyze in detail below, the authors draw the general conclusion that the *relative* success of the recent German economy, with respect to its competitors, has *not* been the frequently celebrated introduction of the Hartz IV legislation and with this the general forcing of the unemployed into work and consequently the relaxation of pressures on the social system, but:

¹Dustmann *et al*, From Sick Man of Europe to Economic Superstar: Germany's Resurgent Economy, Journal of Economic Perspectives, Vol 28, 1, 167-188, 2014. <http://dx.doi.org/10.1257/jep.28.1.167>

1. The fact that German unions are autonomous from general state legislation and allowed to react according to the overall, as well as the specific economic situation of each company and that of their employers. Therefore, and with their still large influence and high-level of structural organization, the unions have accepted low to no wage-grows in recent decades when they knew that their companies are not doing well. In addition and thanks to their state-wide and high degree of organization they have been able to implement this on a national level.
2. The fact that there is currently no state-wide legislation on a minimum wage in Germany allows the unions to act more freely and exactly in the way they have done throughout the '90s.

Overall Dustman *et al* conclude, having a large autonomy in the "Tarifparteien" agreements (which has been the case for West-Germany since the foundation of the Federal Republic), plus specific national and historic factors like the reunification and especially the enormous fiscal pressures from the latter, and finally with the assets of the overall economic changes in the East (like the tight relationship to countries with well educated people and cheap labor) since 1989, those were the leading factors according to the authors for Germany's resurgent economic success by the end of the '00s.

Dustman *et al* therefore conclude that this success cannot simply be copied to or mimicked in other (EU-) countries because of the prevalent national and historical specifics in this development. The central, and from my point of view politically and ideologically motivated, conclusions drawn by the paper from the economic observations and analysis made are therefore that a "decentralized" but industry-wide bargaining-system of "Tarifparteien" (like the one of the traditionally large unions like IG Metall and Verdi and without the tendencies to highly specialized and dedicated partial-interest unions, like pilot- and train-conductor unions with lots of socio-economic power for damage) was key to the later economic success of Germany in an otherwise very specific historic context.

In my point of view however some different, alternative conclusions may be drawn from the provided empirical results and from the choice of analytical methods. The relative economic success of Germany in the 00s is due to

1. the bad performance of its competitors,
2. the decline of wages in the infrastructure and support service sectors (not only in Germany but also in most other western countries),
3. the ability of the manufacturing sector to profit from 1 and 2 even with increasing wages in its own sector,
4. the globally (relatively) stable demand for (competitive) export products.

In the following I will provide a more detailed analysis of the economical key-findings of the work by Dustmann *et al*. I will further present and discuss their main findings in the context of how they are presented in the paper including an analysis of the motivation for the choice of statistical tools and methods applied and will show how the same results may lead to my own conclusions as summarized before. I shall not (and wouldn't be able to) contradict or falsify results of the analysis and presented methods or empirical evidences themselves. However I will show that the same economic analysis can be used to support some very different socio-political conclusions. In the end, I believe that it is the task of a marxist left to use such or similar economic analysis to come up with its own political interpretations and analysis.

The leading socio-economic debate of the '90s: "die Standort- und Lohnnebenkostendebatte"

The papers economic analysis starts off with a discussion of one of the key-parameters in the capitalist profit-success equations: the relative unit labor cost².

Actually it was this key-indicator which has been celebrated by The Economist back in 2005 in a title on "Germany's surprising economy"³. But it was already by the end of the then still prevailing "Standortdebatte", which has started already in the mid of the nineties, and at the height of Schröders implementation battle around the Agenda 2020 at the beginning of the '00s, that the result of the "Lohnzurückhaltungs"-policy of the unions (which in turn started already after the economic crises of '91 and '92) became evident. It was exactly this "surprising" development of the relative unit labor costs which had been referred to in the special report by The Economist. In the nineties there was considerable political pressure on the unions through the political debates of the "Standortdebatte" to significantly reduce their wage-rise expectation time and time again, which eventually succeeded to be also politically absorbed by the unions themselves. This debate has been played out throughout the later nineties basically everywhere in the public debate from the economic pages of the newspapers to the prime-time talk shows of ARD and ZDF. As a result, overall, net real-wages did not rise or even fall in Germany throughout the '90s, whereas in all other countries, after the fall of the iron curtain, the economic liberalization of trade throughout Europe, with large impact especially on the eastern European countries, triggered a relative boost (to bubble) increase in these country's economic performance, accompanied by a raising wage-level, except for Germany. This development was only accelerated through the introduction of the EURO which significantly and suddenly increased the buying power of the people in developing European countries, whereas a large fraction of German employees saw their real level of earnings and savings decline during the same time range⁴.

The emphasis here is on the key adjective "relative". While German employees wages stagnated or fell from a high to medium level as compared to wages in other European countries, Spanish and Italian workers, but also French wages have risen significantly. As a result unit labor cost went up in these countries whereas it fell in Germany.

The second important factor influencing the unit labor cost is productivity since it is the quantity measuring the unit output. Productivity levels, GDP output per labor time, in Germany were due to technical innovation always high and have been steadily increasing at variable rates and at a levels similar or higher than its West-European competitors⁵. Since unit labor cost is related to wage levels *and* productivity, stagnating wages in combination with unchecked productivity, due to increased (self-)exploitation or technical advances, will drive the unit labor cost down. Because technical advances become available also to other countries their productivity will also go up. However, if one compares the unit labor cost of these countries to equate *relative* unit labor cost, like Dustmann *et al* do, finally the wage development becomes deterrent since the productivity is increasing roughly at the same rates (at continuously lower levels) in the countries the authors compare with each other.

Dustmann *et al* analyze indeed *competitively weighted relative* unit labor cost, which effectively relates the unit labor cost of one country, relative to a selected starting point (here 1995), to all (!) other countries. Consequently the country which accumulates the lowest values over time of

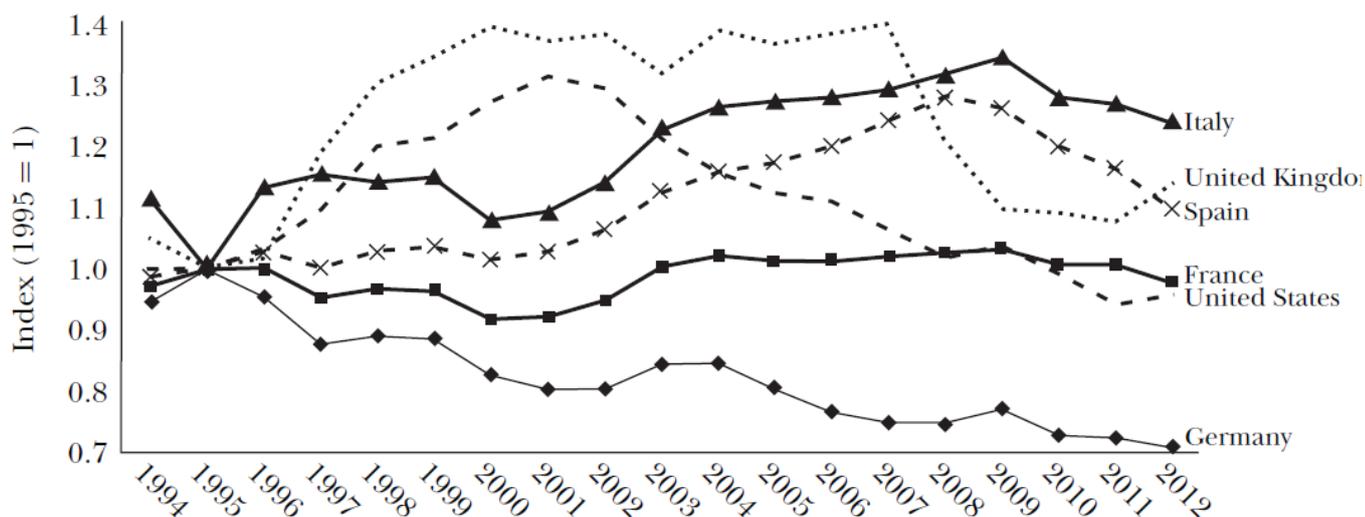
²For a summary of an marxist account on the functioning of the capitalist economical order see: R. Lang, Eine kleine Arithmetik des Kapitalismus, www.ifkt.org, and references therein.

³The Economist, Special report on Germany's economy, p.54ff, August 20th-26th, 2005.

⁴The fact that this had to do with increasing consumer prices through the introduction of the EURO had always been a myth, triggered by the fact that beer, restaurant and rent prices in general indeed went up significantly, whereas most other mass consumption prices like for computers and mobile phones went down.

⁵<http://stats.oecd.org>

Evolution of Competition-Weighted Relative Unit Labor Costs, Selected Countries 1994–2012



Source: OECD Economic Indicators.

Abbildung 1: Competitively weighted relative unit labor cost reproduced from Dustmann *et al.*, *Journal of Economic Perspectives*, Vol 28, 1, 2014, Fig.1, which effectively relates the unit labor cost of one country, relative to a selected starting point (here 1995), to all (!) other countries. Consequently the country which accumulates the lowest values over time of this quantity is basically outperforming all other countries. For details on the calculation of the index see the caption of Figure 1 in Dustmann *et al.*, *Journal of Economic Perspectives*, Vol 28, 1, 2014.

this quantity is basically outperforming all other countries in its *weighted relative unit labor cost accumulated changes* - and this is Germany (see Figure 1).

Developments in wage-levels

As said before, it is evident from very similar productivity rate increases (at very different starting levels) that the key-contributor to this result is the development in wage levels, which stagnated or even decreased in Germany during the observed time range. But was this indeed true for all sectors and for all income levels in Germany? The fact that average income levels stagnated does not mean that some saw their wage level increase, while others suffered from even larger decline (see Figure 2)!

The analysis of the differences in wage development in Germany since 1995 by Dustmann *et al* is probably the most interesting and most telling and fruitful result they present for further analysis. It seems also the least diluted in terms of applied methods or normalization. The latter being always a very tricky business and potentially leading to large systematic errors because of large sensitivities to the starting conditions, which in turn are often not presented or discussed in statistical evaluations. Also Dustmann *et al* do not analyze in depth their choice of 1995 as a normalization point for their *competitively weighted relative unit labor cost changes*. Although 1995 may at first glance be a very convenient choice because it has been one of the first years in which the initial state of the "new" reunited German economy was fully developed, still, a merely "convenient" choice of a normalization point is not enough for any solid statistical analysis of weighted time series of any type of indicator.

Coming back to their analysis of wage-level developments in Germany since 1995. The authors first of all sub-divide different export levels along two lines: exportable and therefore tradable and non-tradable goods on the one hand and goods from manufacturing and from service sectors on the other hand. This separation is also very fruitful for any marxist economic analysis, since it singles out the sector, which due to Marx value theory grounds the monetary value of anything in capitalist systems: the value of wage-dependent work in the "manufacturing tradable sector".

Basically the authors identify three sectors from this separation in which they observe the respective development of wages since 1990: the non-tradable sector, tradable services and the manufacturing tradable sector⁶. The separation between tradable and non-tradable is done at the 25th percentile level of export values of these sectors, whereas separation of manufacturing and services in the tradable sector is done by identifying the manufacturing part and call everything else a service⁷. Then the authors look at the wage development in each of these sectors separately (Figure 3).

Broadly speaking wages in non-tradable sectors, i.e. the wages of nurses, teachers, (state-) employees in public services and so on, went down since the beginning of the '90s especially in the lower wage level range, whereas higher non-tradable sector wages more or less stagnated. In the tradable service sector, web-designers, marketing experts, architects, the situation is not much different. Lower wage levels systematically decreased since the beginning of the nineties, whereas mid-level wages stagnated and only the highest 85th percentile of wages saw a very moderate increase, however with some decline by the end of the '00s.

In the tradeable manufacturing sector however the wages of industrial workers, engineers, technical specialists etc., increased, even at the lower wage-level throughout the '90s and only the lowest 15 percentile wages stagnated throughout the '00s, whereas all medium to higher level wages continued to increase.

Inequality, outsourcing, specialization

What is the background to this very uneven development of wage-levels within the different sectors in Germany? Generally speaking the end of the 20th and the beginning of the 21st century was characterized by economic instability with boom and bust periods following each other in close vicinity, since the early crisis of the '70s⁸. Such periods of economic instability are usually characterized by a tendency to outsource, starting with everything which doesn't require a lot of very specialized expertise and can therefore, broadly speaking, easily be brought as a service on the market. Preferably, and as a rule of thumb, everything is outsourced where there is a lot of competition on the market whereas whenever there is none developments are done in house⁹.

Prerequisite to any outsourcing tendencies are very low unit-labor costs available on the market and for the required services, as well as preferably low profit rates for the same service to keep the end-product prize low. The latter (low profit-rates) are important since theses are effectively

⁶To distinguish between service and manufacturing products in the non-tradable sector (a potential fourth category) seems indeed not very fruitful.

⁷For details see Appendix A of the paper at <http://e-jep.com>.

⁸Brenner, *The economy of global turbulence*, Verso, 2006.

⁹Consider for example the Amazon case. Amazon has not outsourced the distribution of its goods, like most other companies do, because it is actually the special distribution-engineering process, which is at the heart of Amazons "innovative" business model and, since it not outsourced, the part through which Amazon will (eventually) make the largest profit through exploitation of its own labour force working in the distribution chain. For a detailed account of the relation between economic crises, the limits to capitalism, falling profit rates and the tendency to specialization and outsourcing please see, R. Lang, *Vom Ende des Kapitalismus zur Expertendiktatur*, www.ifkt.org, and references therein. For a superb summary of Marx' groundwork in *Das Kapital* on the same mechanisms see, Harvey, *Limits to Capital*, Verso, 2007.

Figure 2

Indexed Wage Growth of the 15th, 50th, 85th Percentiles, West Germany, 1990–2008

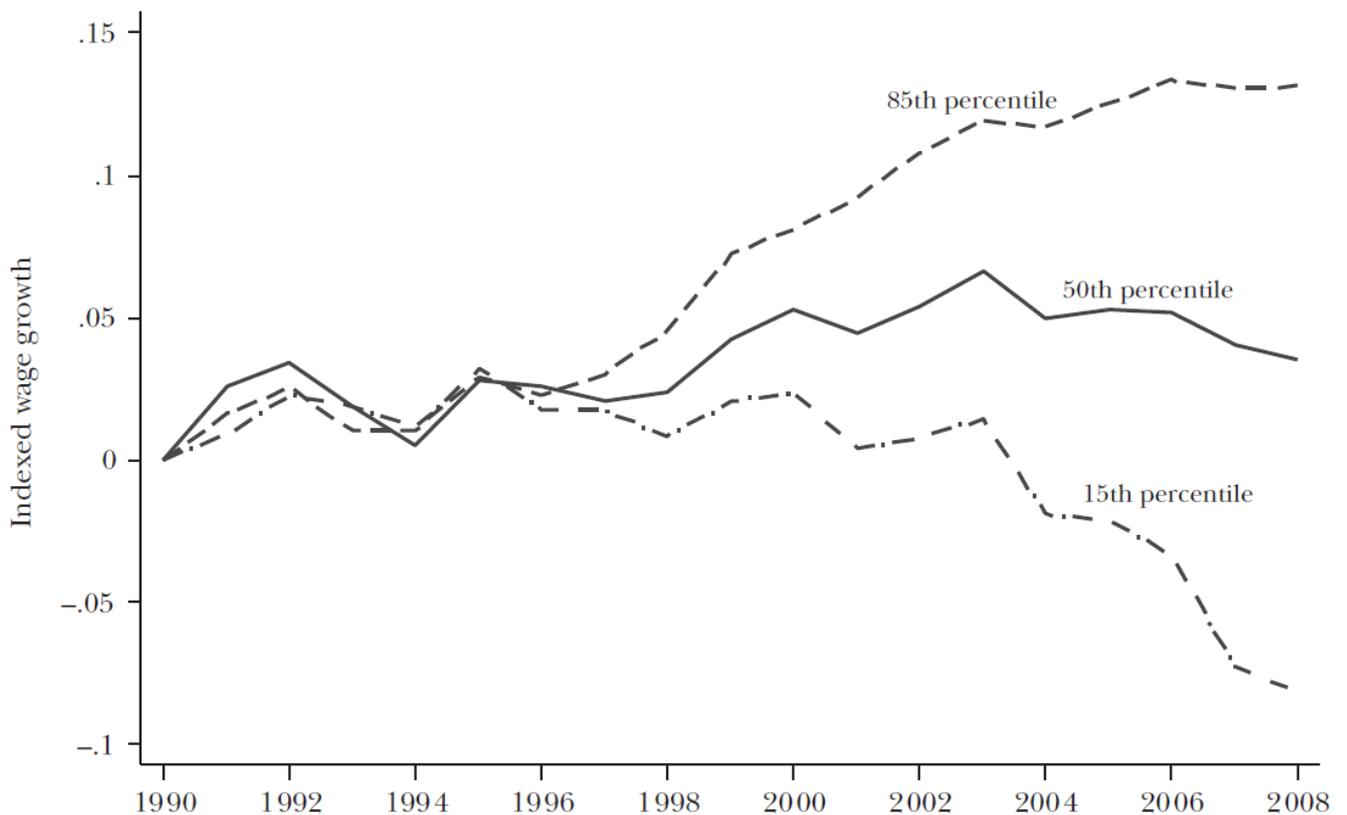


Abbildung 2: The figure is reproduced from Dustmann *et al.*, *Journal of Economic Perspectives*, Vol 28, 1, 2014, Fig.2. Calculations are based on SIAB Sample for West German Full-Time Workers between 20 and 60 years of age. The figure shows the indexed (log) real wage growth of the 15th, 50th, and 85th percentiles of the wage distribution, with 1990 as the base year. Nominal wages are deflated using the consumer price index (1995 = 100) provided by the German Federal Statistical Office.

in competition with any (potential) profit made by the company through in-house development of the same services. This is because profits are only made in case own labor value is added to the overall end-product from which, through additional work invested by the employees, eventually a profit can be made¹⁰.

In economically instable periods investments in developments and research are risky, because one needs time to do them and the prices to be achieved on the market by the end of this process might differ significantly from when the investment has been started. However, outsourcing reduces the profit (since someone else is making it, even when small) especially in stable periods.

To summarize, outsourcing is only beneficial in

1. economically instable periods,
2. when significant new, in-house development and research for the needed products or services would be needed,
3. there is a lot of competition for the desired service on the market which drives profits and unit-labour costs for these services down.

As it happens, the last 25 years have been:

1. Economically instable.
2. Since the 1980's and with the advances of the IT sector - for and out of which a lot of new services and professions have been developed leading finally to the crash of the new technologies in 1999 - increased productivity through technological advances has eventually further decreased the global wage and (!) profit levels¹¹, especially in the service sector¹².
3. The German "Standortdebatte" ("Lohnnebenkosten-debatte") of the '90s has exercised a meanwhile forgotten enormous political pressure to implement drastic measures of public fiscal austerity, very much resembling similar pressures on other EU countries and the US following the 2008/9 real-estate and banking sector crash, which drove prices for social benefits and services down¹³.

The crucial point here is - and it is one of Dustmann *et al* leading points - that 3) has been triggered independently and relatively out of phase with similar political discussions and pressures surfacing and imposed in other countries. The reason that Germany had its historically very specific discussion on fiscal austerity (and all political consequences that followed from it, like Hartz IV, as well as the regaining of economic and political dominance) before and at a different point in time and basically out-of-sync with the global economic boom-and-bust cycle of the '90s and its correlated political discussions, was the fiscal and monetary pressure of re-unification, triggered by events only very indirectly if at all related to global capitalistic economic waves.

This placed the German haunt to austerity, with huge impact on the non-tradable service sector and with the on-going world-wide consolidation of the IT-dominated communications service sector,

¹⁰R. Lang, Eine kleine Arithmetik des Kapitalistischen Wesens, www.ifkt.org.

¹¹See OECD stats at <http://www.stats.oecd.org>.

¹²E.g. the IT-industry produces pre-dominantly service-sector products, which are incorporated in the overall manufactured end-product and therefore in its manufacturing, distribution and selling process.

¹³In a recent delivery of the new political cabaret show of the ZDF, "Die Anstalt", the editors reminded the public that it was through this political debate of the "Lohnnebenkosten" and "Lohnzurückhaltung" that the drastic reshaping of the German retirement sector from an 100% publicly supported system to a system significantly supported by private investments and capitalist/private investment-funding eventually took place, implemented and driven by "expert-system" driven economical models (Riester, Rürup, etc) and leaving the individual owner of retirement stakes prone to market boom and bust cycles. Similar developments are happening or have happened in and to the public health insurance system.

with Berlin as the European to world-wide - "bigger than Williamsburg" - flagship and experimental laboratory concerning tradable service sector related self-exploitation, efficiently reducing this sector's unit-labor costs, in a period during which the world economy and its demand for industrial goods and output (i.e. export levels) remained relatively stable¹⁴.

The socio-economic impact of a pop-cultural debate based on facts and myths

In contrast, the Greece, Italian, and Spanish haunt for austerity was triggered by both internal *and* international forces and occurred in times when the global economy was shattered as a whole. At this point in time Germany had already successfully reduced the wage-level in every corner of the non-tradable and the tradable service-sector. This result has been triggered through a historical event and by means of a notorious pop-cultural predominant and influential debate ("Standort- und Lohnnebenkostendebatte"), which in turn was strongly supported and upheld by the first generation of European neo-liberals like Henkel and Lambsdorff, the turn of the FDP from a genuine liberal party (Heuss, Genscher I and Dönhoff) to a blank neo-liberal lobby group (Genscher II, Lambsdorff, Westerwelle), and in the wake of the enormous fiscal pressure on the public sector and on all state owned resources because of the cost of re-unification.

The global boom and bust of the tradable service goods with the emerging IT sector and its technical revolutions, in addition and during the same time period, reduced the cost of this kind of services until the mid of the '00s drastically. Finally the industrial sector, by significantly reducing its overall workforce (with significantly increasing unemployment rates from this sector throughout the '90s, a statistics which is omitted in the paper by Dustman *et al*), and by significantly increasing its outsourcing quota in tradable services, could successfully maintain or even further increase (eventually) its profits levels from the end of the 80sy (still at significant lower levels when compared to the 50s and 60s), since the demands of its goods (export levels) was globally relatively unchanged in times during which most of the major political reforms have been implemented in Germany. Germany's export levels stagnated or even fell for the first time again only during the 2008/9 crises, and then at very moderate levels, when all of the political and economical reform had been already implemented and large parts of the markets for the tradable industrial goods had been regained.

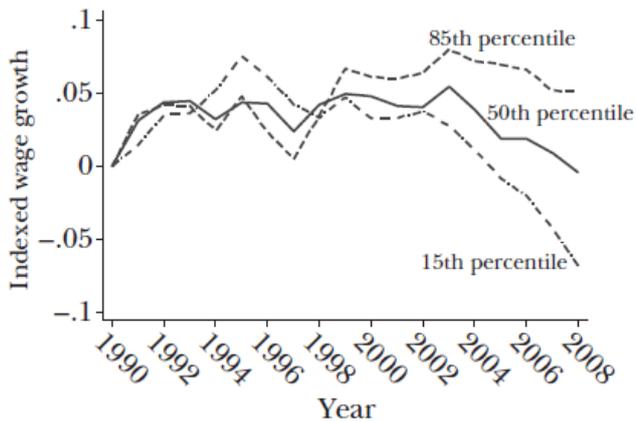
While Dustman *et al* refer the consequent *relative* ensuing economic success of Germany during and following the 2008/9 crisis years to a combination of the uniqueness of the historical event of re-unification *and* a policy of austerity supported or even implemented thanks to the unions and Germany's unique constitutional independence policy of the "Tarifpartnerschaft", here I would like to argue that, in contrast, the uniqueness of re-unification historically triggered a political popular debate on austerity (which has been completely neglected by Dustmann *et al.*) through real fiscal pressure on the public sectors, which was favorably out-of-phase with the rest of the economy, and allowed a mixed group of experts and political and ideological stake-holders to take advantage

¹⁴To calculate the unit-labor cost in the service sector is a tricky business. The problem is the number of unique units to be counted as such. The number of patients treated, or only those healed, the number of houses designed, or only those eventually built, the number of advertisements sold or only the related number of increased sales? The problem is that this sector has a huge quantity of units produced which actually make no money: architectural competitions, flyers and ads from self-advertisement, etc.

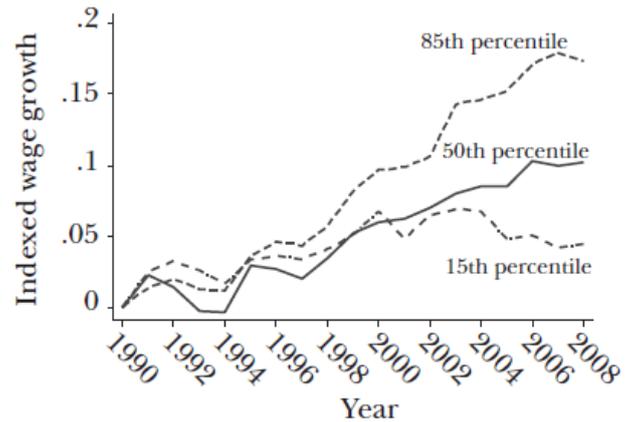
So it came to some, watching the service market of the old western economies closely since the eighties, at not much a surprise when all of a sudden in the '00s some Indian companies hired call-centers in the US since they were cheaper than similar companies in India at the time. One thing to remember here is that while wages for these services are going down tremendously, net of inflation in the western economies, they might be still much higher than those in the call-centers of India. The difference resulting in eventually lower unit labor costs in the West may be simply due to higher productivity levels which might outperform the Indian ones, even with (marginally) higher labor costs and social security benefits.

Indexed Wage Growth of the 15th, 50th, 85th Percentiles, West Germany, by Sectors, 1990–2008

A: Nontradable Sectors



B: Tradable Manufacturing



C: Tradable Services

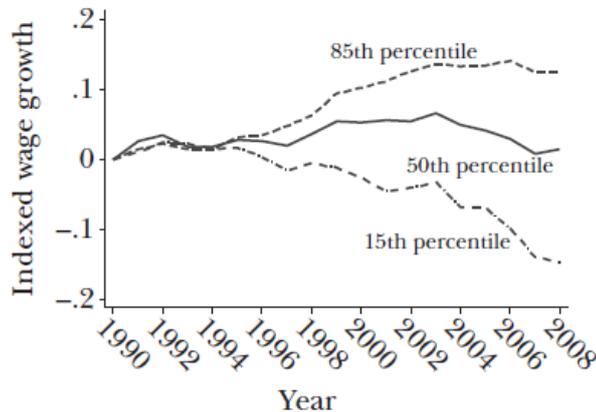


Abbildung 3: The figure is reproduced from Dustmann *et al.*, *Journal of Economic Perspectives*, Vol 28, 1, 2014, Fig.3. Calculations are based on SIAB Sample for West German Full-Time Workers between 20 and 60 years of age. The figures show the indexed (log) real wage growth of the 15th, 50th, and 85th percentiles of the wage distribution, with 1990 as the base year. Nominal wages are deflated using the consumer price index (1995 = 100) provided by the German Federal Statistical Office. Panel A shows the evolution of these figures for the non-tradable sectors, panel B for tradable manufacturing, and panel C for tradable services. Sectors with export volumes below the 25th percentile of the distribution of export volumes in 1995 are classified by Dustmann *et al.* as “nontradable sectors”, and those with export volumes above this threshold and that belong to the manufacturing sector as “tradable manufacturing.” The sectors above this threshold that do not belong to the manufacturing sector are classified as “tradable services.”.

of the double of the enormously reduced costs in Germany's non-tradable service sector (with reduced Lohnnebenkosten) and the globally reduced costs in the tradable services, which by means of massive outsourcing and cuts in R&D benefitted predominantly the tradable manufacturing sector, whose export basis, in turn, did not die-off or remained in reasonable shape (and has been significantly supported by a weak EURO at times) during these difficult years of political and economic transition.

From this point of view, neither Hartz IV (as also Dustmann *et al.* conclude) *nor* the unions self-induced "Lohnzurückhaltungspolitik" was at the basis of Germany's later *relative* economic "success", although they had their role to play. It was the trigger of a pop-cultural political debate ("Standortdebatte") and the process of re-unification that grounded the possibility of regaining profits through outsourcing to (also national) sectors of cheap services and reduced social costs which were then the key to the success for the manufacturing sector and its wage-levels alone, whereas all other sectors suffered from declining profits and wages. Germany's unions occur to remain particularly strong in the manufacturing sector, which they helped to maintain (or even increase) wage levels, while they were retrospectively claiming that their own "Lohnzurückhaltungspolitik" was key to the later economic success.

However, there was no need to help the economy in its downward spiral of wages in other sectors, since it did it all by itself and with the help of the actual employees and workers in these sectors and supported by the mentioned public debates, who accepted the increase in (self-)exploitation levels and the decrease in their wage-levels without any resistance and without urging the unions to intervene (which indeed they did not). There is little to no doubt that the unions were not (and still would not be) strong enough in both of Germany's service sectors to have been able to initiate any substantial resistance against what has been widely seen as hard but "inevitably necessary" measures due to both the historical fate and the fatal facts of the economic state of the situation of Europe's emblematic "sick-man" economy of the nineties and the early '00s¹⁵.

Neither "Hartz IV" nor the unions

The crucial point why union supported resistance towards the downward spiral of the service and public sector wage- and social security-level since beginning of the '90s was and still is futile is that the unions grasp on the willingness to accept higher levels of self-exploitation on the one hand and the decline in social security and infrastructure support-levels on the other hand is limited, to say the least. While the willingness to (self-)exploitation has been supported by a political and moral debate on "Transferleistungen" in which the unions did not have much to argue against since it was based on a gesture of "solidarity" (with which Kohl won the republic from Lafontaine in '92) and which was in turn supported by a general protestant German attitude towards work, the decline in social benefits, in contrast, was triggered by an expert debate about "factual necessities" and around an essentially racist and nationalistic popular myth of an "aging society" (of white and decent Germans only, of course!)¹⁶. In both debates the unions didn't have much to argue nor say (although some tried¹⁷). However the impact of both debates has been crucial for the faltering of the unit labor cost in the manufacturing sector through the decline in (also national) service-sector product-costs together with the cheap service-sector products of the new eastern European economies, i.e. increased outsourcing levels. A fact which Dustmann *et al.* clearly support with their comparison between the evolution of "value added" unit labor cost (stuff produced internally for which profit can be added) and unit labor cost of the end-product including all parts which have

¹⁵Time and time again it seem to be the masses in our late-stage capitalist times, who prohibit substantial change to the positive or the worse.

¹⁶Gewerkschafts papier zur Überalterung...

¹⁷ebd.

been outsourced¹⁸.

While "value added" unit-labor costs remained stable throughout the nineties and decreased only marginally in the '00s, "end-product" unit labor cost was continuously on a fall, proving that the addition of even cheaper (service) products through outsourcing helped to reduce the overall end-product cost, without adding any internally created means of rationalization or any other type of innovations.

Between 1995 and 2007 the share of outsourced components in the overall end product raised from 66 to 73%, of which a large part came from domestic services with their falling unit-labor costs, but also with an ever increasing part from the new eastern European countries, from which Germany imported 8.5% of all its outsourced service input, while e.g. Italy's share was 2.5 and Frances 1.9%.

Again, while the figures clearly show that the "success" of the German economy during the recent crisis has been

1. the relative success in unit labor cost developments largely due to the weakness in this aspect of its competitors,
2. heavily fueled by the decrease of wages (and therefore unit labor cost) in the service and infrastructure sector and a significant increase of the share of outsourced product components from the latter in the manufacturing services,
3. a competitive advantage in the grip on low unit-labor cost services in the new eastern European economies, and finally
4. a decrease in social costs like "Lohnnebenkosten", tax on economic activity (Gewerbesteuerreduktion auf der "grünen Wiese") especially in the East, rationalization and automatization including the laying off of a significant amount of the workforce between 1990 and 2007,

it is hard to see where the influence of the unions, as emphasized by Dustmann *et al* and the unions themselves, in all this ought to emerge.

Dustmann *et al* present hardly any evidence that the falling unit-labor costs in the service sectors (and in the eastern European economies!) was thanks to the unions grip on their members and predominantly due to their notorious policy of "Lohnzurückhaltung" und "Tarifnullrunden", which meanwhile are claimed by the German unions as their "share" to Germany's concurrent economic success (in addition or even despite Hartz IV legislation) up until today, and being therefore key to the before mentioned list of impact factors¹⁹.

Conclusion

In the end, the decline of other European economies, increased shares of self-exploitation in the domestic service sector, the emerging East-European markets and significant fiscal and then political pressure on the public sector, induced by a unique historic event, can hardly be put under the umbrella of influential union policy, how well organized or independent form state policy they might be. The only real difference the German unions can put on their list of achievements, and which Dustmann *et al* can therefore put forward, is a fact which at the same time should put ashame any real unionist in the world. Dustman *et al* quote Lesch (2009) to emphasize the fact that Germany has lost on average 11 days of work each year per 1000 employees by strikes and lockouts between 1991 and 1999, but only five days per 1000 employees between 2000 and 2007. Theses figures for

¹⁸See Table 1 of Dustmann *et al.*, *Journal of Economic Perspectives*, Vol 28, 1, 2014.

¹⁹Ref....

the earlier and the later time period compare to 40 and 32 days per 1000 employees in the US (!), 30 and 30 in the UK, 73 and 103 days in France, 158 and 93 days in Italy, and 200 and 164 days in Canada.

Like parts of today's German unionists also Dustmann *et al* put forward the point in their concluding section that Germany's current relative economic success was predominantly a success of independent but still well organized and widely influential (Tarifautonomie and Flächenvertrag) unions, with their policy of "Lohnzurückhaltung" with which they confronted the tough years and consequences of the economic crisis of the nineties, in combination with the fiscal pressures induced by re-unification. The authors obviously trying to use the argument of the supposed benefit and role of the very specific German "Tarifautonomie" in the current relative economic success of Germany in order to attack the current implementation of the low-wage limit in Germany, which is supposed to attack exactly this key-stone (the unions and companies autonomy in wage policy from state legislation) of this supposed success.

But what actually has been the role of the unions in the decline of unit-labor costs and wage-levels in the service sector, where fiscal state and local government pressures on infrastructure and social benefits, significant increases in outsourcing of low-cost service products, and significantly reduced costs of domestic services due to increased self-exploitation (Berlin-Cafe Laptop-free-lance style: "das Prekariat", kind of exploitation), play the most significant role? It should be clear from the start that the unions influence on these parameters is, to say the least, limited if at all existent.

Finally it has therefore to be concluded that the key to Germany's relative economic success in these days has neither been Hartz IV nor the unions unique "Tarifautonomie" and their celebrated years of "Lohnzurückhaltung", but at its origin lies a popular, dystopian "doomsday" public debate over the decline of the "formerly proud" German industrial competitiveness (referring to the years of the still consciously present "Wirtschaftswunder" of the 50s and the 60s), the huge pressure on nation-wide and local government balance sheets through the enormous economic cost of the politically supported but only partially welcomed re-unification, during a time of relatively stable requests for German export products, the world-wide, but in Germany specifically protestant, tendencies to self-exploitation in the tradable service sector, the strong grip and relatively easy access to East-european service products, and finally but not least today's relative weakness of most of Germany's European export competitors.

As such "Germany's Resurgent Economy" may prove to be a classical, although historically due to circumstances, limited, exception of momentary economic success, with respect to and because of the generally observable, long-term decline of all the proto-capitalist countries of the old western economies.