Germany shows us how to thrive in an economic downturn

By Doug Saunders

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You'd think this would be a trying moment for Germans. For the first time in more than a decade, this country has just experienced a quarter of economic decline, driven by a steep fall in worldwide demand for cars and other exports. Some economists are predicting a second quarter of loss – a recession. When the world's third largest national economy slides into a downturn, the whole world watches.

But we should take notes. Germany has developed a number of shrewd systems to prevent people from being hurt by a changing economy.

For sure, there's tension at the highest levels. On Thursday, I watched Chancellor Angela Merkel mark National Unity Day with a dour speech warning that the country was still not equal – its ex-communist east has half the personal wealth of the west – despite the fact that nearly €2-trillion ($2.9-trillion) has been spent over the course of 29 years on reunification. Her coalition government, which has a huge fiscal surplus, is bizarrely hesitant to fight the downturn and get the wider European economy going by raising government spending.

But at the level of individual households and jobs, things are looking surprisingly resilient. During that quarter of decline, the number of jobless actually fell – by 0.7 per cent, to a staggeringly low national unemployment rate of 3 per cent, or more-than-full employment.

That's partly because of a series of policy decisions Germany made in the late 1990s and early 2000s, to switch from being predominantly a welfare state, where joblessness is compensated directly with income redistribution, to a "social-market" economy, where welfare is used mainly to top up salaries.

As a result, Germany initially went from being a country with a lot of long-term unemployment to being a country with an unusually high number of "working poor" – people whose jobs kept them below the poverty line. Some 20 to 25 per cent of Germans are in the "low wage" category, a high rate by European standards. To a lot of Germans, that did not feel like an improvement.

But several things changed over the past decade, in ways that have improved the lives of tens of millions of Germans – and possibly made them more recession-proof.

I spoke this week with Maximilian Stockhausen, an economist with the German Economic Institute in Cologne. He is an expert in economic mobility – that is, the likelihood that you will be financially better off than your parents – and recently completed a large study of mobility rates in Germany and other countries.

He found that the social market model has aided economic mobility. More than two-thirds of Germans now have higher incomes (measured in actual purchasing power) and better living standards than their parents, placing Germany well ahead of the United States and Britain in upward mobility.

When I asked Dr. Stockhausen what might propel this income escalator, he mentioned three things.

One was the minimum wage introduced for the first time by Germany in 2015, which currently pays about $14 an hour and rises with inflation. While minimum wages usually raise unemployment, research has shown that it has had almost no effect on joblessness in Germany (thanks to gaping labour shortages) and had a beneficial effect on poverty rates and economic inequality (which is generally high in Germany).

Second is Germany's famous apprenticeship system, known as the dual training program, which educates people in skilled fields through government-assisted on-the-job training rather than college, allowing employment to begin years before education is completed (and providing a high-income alternative to university).

That system has contributed a lot to economic mobility – and it has also allowed hundreds of thousands of migrants and refugees who came to Germany in 2015 and 2016 to be scooped up by the skilled-job market, resulting in an unusually high rate of refugee employment and income. I'm glad to see that system making an appearance in Canada's federal election, with apprenticeships on more than one party's platform. They are sorely needed.

And third is the solution Germany developed in 2008 to keep recessions from throwing people into long-term joblessness – the "short hours" system. Rather than laying off workers when demand slows, industrial employers are encouraged (with government help) to keep them on the payroll but reduce their hours and therefore their salary. That allows a very quick recovery from recession and prevents downturns from doing lasting damage to living standards or long-term family fortunes (or unemployment rates).

In September, 5.5 per cent of German manufacturers made use of this system, up from 3.8 per cent in August.

So perhaps one German worker out of 20 is taking home a smaller paycheque now – but still has a job, which provides a better livelihood than her parents had. When the economy here goes south, you don't see a lot of lives getting ruined.