

# All eyes on Germany: Lessons from the default leader

**Germany has become the E.U. standard-bearer whose role and influence cannot be ignored. Can the German experience offer direction for other European economies?**

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With Germany the de facto economic engine and banker keeping the rest of Europe afloat, many countries, particularly those in the south, are looking north for answers to their own economic woes.

The September 2013 re-election of Angela Merkel has many wondering what more is in store under her third term as German Chancellor.

Besides austerity, reforms and budget cuts, what else can we learn from the way Germany does things that might help stimulate desperately needed economic recovery, job creation and growth?

## **The ingredients of Germany's success**

Germany's success is the fruit of its economic model, educational system and labor policies, among other factors, which have been in place and evolving over many years.

"The German model is based on an open economy, in which growth does not derive from consumption, but rather from the mass export of cutting-edge machinery and technology," explains IESE's [Antonio Argandoña](#).

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As the world's third largest exporter, Germany boasts many large household names — including **Henkel**, producer of Schwarzkopf hair products, Pritt stick, Sellotape and Dial soap — and **SAP**, the world's leading provider of business software solutions.

Beyond these global giants, Germany has an estimated 3.5 million small and medium-sized businesses — the *Mittelstand* — which have also been vital engines for export-driven growth.

This export focus has undoubtedly benefited German industries. In an interview with IESE's Jaume Ribera, **the CEO of Henkel Management, Kasper Rorsted**, noted, "We are seeing a higher level of profitability now coming from the emerging markets. And that is part of the profit drive we have."

Coupled with having heavyweight exports is having an educational system that prepares highly trained labor in line with market demands.

Moreover, labor reforms taken under Gerhard Schroeder are credited with turning the country around following the fall of the Berlin Wall — from an unemployment rate of 19.5 percent just after reunification, to nearly full employment today.

Read [Could Germany's labor reforms work elsewhere?](#)

As IESE's Sandalio Gómez explains, the underlying thinking behind the reforms was that people needed to take matters into their own hands if they were going to avoid unemployment. In particular, as a condition of receiving unemployment benefits, people had to accept job offers made to them, with few exceptions. This represents a change of thinking for many state benefits programs.

## Replicating the model

The issue of following Germany's example touches a raw nerve in southern Europe, at a time when many consider that yet more German-style austerity measures will only serve to perpetuate and deepen their recessions.

Even so, the following aspects of the German model are certainly worth considering elsewhere.

*Internationalization.* For a country like Spain, where fewer than 4 percent of companies export, taking more business abroad would represent a major leap forward.

"The dire state of the domestic market is reason enough for companies to want to seek opportunities beyond Spanish shores," say IESE's [J.E. Ricart](#) and [Jaume Llopis](#).

However, the professors underscore the importance of viewing internationalization as a value-creating strategy, cautioning against viewing it as a desperate measure implemented only for desperate times.

Read [Going international: A Strategic move, not an act of desperation](#)

*Vocational Training.* Admittedly, certain employment arrangements may be harder to implement in other contexts, due to unique regulatory conditions.

However, improving the level of training — such as acquiring new language skills and management competencies — may be a short-term solution, at the very least, toward resolving "the eurozone's most glaring imbalance: southern European unemployment versus German labor shortages," suggests IESE's [Sebastian Reiche](#), who teaches on the [Program for Management Development \(PMD\) in Munich](#).

*Labor Reforms.* In a recent interview with *Capital*, IESE's José M. Campa described E.U. measures to combat youth unemployment as largely symbolic, and stressed the urgency of doing much more.

In this regard, IESE's [Sandalio Gómez](#) believes that some German-style labor reforms could be applied elsewhere, provided that they were adapted to each local context. The key is not to read the German experience like a manual, but rather to take note of what has worked there and understand why.

Germany is not without its shortcomings. It would be a mistake, adds Campa, to simply mimic Schroeder's reforms. Instead, other countries could use them as a springboard to come up with their own creative solutions to stimulate their own economies and that of Europe as a whole.

Argandoña echoes this point: "Any reform must be tailored to the particular needs and preferences of each country's people, which are obviously quite different from those of Germany."

The important thing is not to hide behind arguments that "it'll never work here." After all, every culture is in a constant state of flux, so borrowing aspects of what works in Germany must not be out of the question — especially if it helps countries become more efficient,

thrifty and prudent after the reckless behavior that precipitated the situation that Europe now finds itself mired in.

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