

Containers: Germany's economic success is founded on its orientation toward exports.

PHOTO: PICTURE ALLIANCE/DPA | CHRISTIAN CHARISUS



# GERMANY'S ADVANTAGE

*TEXT:*  
*SABINE FISCHER*

Relationship status: it's complicated. For many people, the European Union is a source of both identity and excessive bureaucracy. However, it gives its member states economic opportunities that one country in particular has used to its advantage: Germany. Martin Höpner and Lucio Baccaro at the Max Planck Institute for the Study of Societies explore why Germany has been able to benefit to such an extent and why a course correction is nonetheless advisable.

“Take good care of democracy when I’m gone.” A woman in a colorful blouse calmly reads this sentence from a letter she has written to her grandson. She is sitting beside other elderly people in a bright room. All of them experienced how democracy in Europe changed their lives – such as in France, the Czech Republic, and Latvia. They all talk about the moments when being part of the European Union made a difference for them and connect these reminiscences with an emotional appeal to the following generation: protect democracy, protect the EU.

This emphatic video was part of a social media campaign headed by the European Parliament in the run up to the second-largest elections in the world. More than 180 million people voted to determine who should represent their interests in the European Parliament, headquartered in Strasbourg in France, for the next five years. The voter turnout of 51.08 percent across the EU was the highest since 1999. Germany even witnessed its highest voter turnout since 1984: 64.78 percent, which was considerably higher than in 2019. Rarely has so much attention been given to EU issues as in the run up to this year’s election. Another aspect that stands out here is that, despite war and crises, most people in Europe are optimistic about this unique association of states uniting 27 countries.

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The Eurobarometer commissioned by the European Commission in April 2024 shows that the EU is an anchor point for many people, especially in times of global insecurity. More than two-thirds of all EU citizens agree that the Union is a place of stability in a difficult world. In Germany, trust in the European Union even increased by five percentage points during the last year. The freedom to travel, work, and study; the uniform currency; and lasting peace are considered its greatest advantages. At the same time, the EU has a reputation for being “particularly bureaucratic.” That’s no surprise. The most recent EU Commission can boast of having created an exceptionally large number of regulations. Steffen Kampeter from the employers’ association BDA told the newspaper *Frankfurter Allgemeine Sonntagszeitung* that companies that have been burdened by additional reporting obligations are groaning the loudest under those regulations. Around half of the people surveyed by the 2023 Eurobarometer considered the EU to be undemocratic.

Martin Höpner, leader of the Research Group on the Political Economy of European Integration at the Max Planck Institute for the Study of Societies, understands why they feel that way. “When citizens believe it doesn’t make a big difference whether they participate in the EU parliamentary election, they’re not exactly wrong,” he says. The reason is that the actual “government” of the EU, the European Commission,

does not come from the European Parliament and thus cannot be elected. Additionally, the Parliament cannot propose bills, which is a basic function of a democratic parliament. Consequently, many people feel they cannot influence what is happening in Europe.

Despite this feeling of powerlessness, Höpner says the EU’s lack of democracy is actually not as extensive as people often perceive it to be. He continues, “Using the criteria of a parliamentary democracy to judge the EU is not fair. It is the uppermost layer of a multi-level system that functions in a completely different manner. A complete democratization of the EU in the near future is neither possible, nor desirable.” The reason for this lies in the way the system works: the EU is legitimized by states whose citizens endow them with authority in a democratic manner. As long as this chain of legitimation functions, it absolves the EU of having to structure its institutions more democratically. A democratic deficit, however, does arise when the EU dysfunctionally overstretches its powers, warns Höpner. He therefore sees less need for reform in the EU’s political system than in its constantly growing areas of activity.

**“The European Union should only become involved in areas where truly transnational problems exist.”**

MARTIN HÖPNER

To become more democratic and transparent, and thus receive greater support from the citizenry, he believes other adjustments are needed. For instance, skeptics constantly complain about the increasing “regulation frenzy;” with a growing number of directives and ordinances, the EU is increasingly placing restrictions upon its members. While the European Commission, the guardian of agreements, actually should be guaranteeing prosperity and reliability, many critics believe that its reform ideas are overshooting the mark. Höpner also sees a need for action in this regard: in principle, the EU does create economic freedom for its member states, but this comes at a price. “The EU excels at asserting individual rights. For instance, consumers can choose products as they please, and pro-

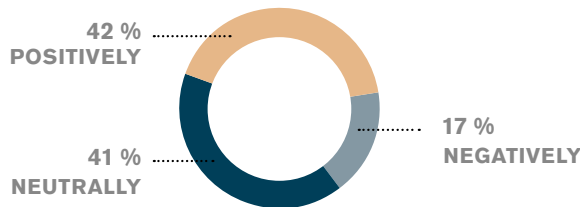
ducers are free to sell their goods outside their country's borders. However, the states lose room for maneuver, which happens at the expense of collective freedom," Höpner elaborates. He says certain projects, including animal welfare projects, experienced difficulty

are no transnational problems to solve. Höpner mentions one example: the standby times of volunteer fire-fighting services. In various rulings, the European Court has regulated when standby duty for these services must be considered working time. "Of course, someone has to regulate how standby times are limited and counted. But since there is absolutely no transnational problem here, it is difficult to understand why this regulation must take place at the EU level," says Höpner.

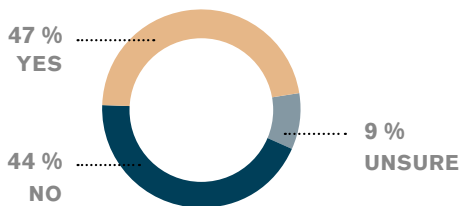
However, a fundamental reform of the Union's areas of activity is difficult to achieve, says Höpner: the EU requires contractual changes before it can renounce individual areas of activity. These changes are not only difficult to negotiate with 27 member states – in some countries, such changes also need to win a popular vote. "It's not as easy to win these referendums as it once was. In the past, they were often a way for people to express their dissatisfaction with the EU," says Höpner. According to Höpner, that creates a dead end: many citizens would like to have a more transparent and effective EU that creates freedoms and is less bureaucratic, but any attempt to move in this direction is quickly boycotted. "Popular votes are rarely approached in a nuanced manner. They are more of a blanket means of expressing discontent and voting against the proposals from the EU." Höpner sees a clear mandate for the European bodies here: the EU needs to make it clear that it wants to withdraw from non-transnational areas of activity. Following this, the switch to a more streamlined system, one perceived as more democratic, could succeed.

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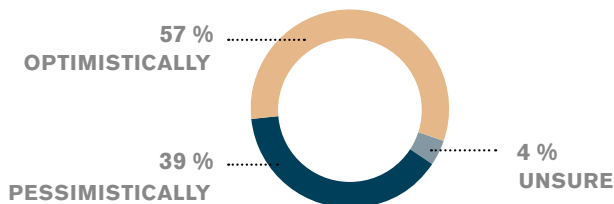
**HOW DO YOU VIEW THE EU?**



**DO YOU HAVE FAITH IN THE EU?**



**HOW DO YOU VIEW THE FUTURE OF THE EU?**



Opinions: faith in the EU is rather high in Germany in April 2024 and has even increased compared to the previous fall. (The Eurobarometer is compiled every six months. Participants: 26,400 citizens across the EU, of which 1,559 were resident in Germany.) Source: *Standard Eurobarometer 101.3, figures for Germany*

owing to this restricted latitude. Höpner believes that the Union should be less strongly involved in the internal development of its member states than it is now, for example, in matters of family and social law. Bureaucracy must be reduced in places where it has no business existing according to European ideals, which is to say, where there

## Germany, the super profiteer

Streamlined or not, the regulations of the European single market create economic opportunities and constraints for member states. Researchers, including Lucio Baccaro, Director at the Max Planck Institute for the Study of Societies, have found that integration into the European single market has been advantageous to Germany in particular thus far. According to Baccaro, European integration is an important component of Germany's new national identity post World War II. Together with Martin Höpner, he has explored Germany's economic development in detail in the research project "Das deutsche Wachstumsmodell, 1991 bis 2019" (The German growth model from 1991 to 2019). One of his findings is that where economic growth is concerned, the European Union has played a decisive role. "After World War II, Germany experienced a huge identity crisis," says Baccaro. "It left the war as a defeated, deeply shaken country. After that, it was important for the German state to redefine and reinvent itself not as a military power, but as a trading nation. Economically speaking, being a part of Europe has become a core facet of the German identity."



GRAPHIC: GCGO BASED ON THE SPECIAL EUROBAROMETER 101 - SPRING 2024 - PUBLIC OPINION IN THE EUROPEAN UNION



PHOTO: PICTURE ALLIANCE / CARO | RUFFER

Berlaymont building in Brussels: Most of the new legislative initiatives at the EU level originate in these offices of the European Commission. The building was constructed in the late 1960s.

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According to the results of Baccaro's and Höpner's research, Germany's reorientation succeeded primarily because the European single market often had answers to some of the greatest economic problems facing the country. After the German reunification and the direct 1:1 exchange of Eastern German marks to Deutschmarks, for example, approximately 18 million former citizens of the GDR received a sudden injection of purchasing power, which put existing production capacity under pressure. The result? "At the time, the country was less stable than before. Demand exceeded supply, there was inflation, and there were, unusually, current account deficits. That meant that, at the time, Germany had to import more than it could export. The Bundesbank intervened decisively to cool the economic overheating by raising interest rates," Baccaro explains.

As a result of these developments, Germany entered a phase of semi-stagnation that lasted into the new millennium. However, the stagnation tendencies were less acute than they could have been because, where growth was concerned, Germany channeled all of its

efforts into exports – with great effect. Between 1995 and 2007, approximately 85 percent of Germany's economic growth resulted from the export sector. A large part of this significant increase was possible thanks to Europe. This is because, at least until the euro crisis, a considerable portion of the goods produced in Germany were destined for the European single market. As a result, the EU and the uniform euro currency ensured prosperity in Germany for years. "At some point, Germany's economy became so competitively viable that the growing export demands formed a counterbalance to the shrinking domestic demand," Baccaro explains.

## Export alone is not enough

However, Baccaro elucidates that this model was never guaranteed success. "Germany was, to a certain extent, just lucky." Driven by the export sector, its economy grew between 1995 and 2007. Baccaro says the situation was quite different in the EU countries that relied on domestic demand-led growth. "Since the

2008 financial crisis at the latest, the countries in the euro zone have been economically worse off than the USA. The export markets in Europe were shrinking as a result of protracted recessions. Germany was the only country that was hardly impacted by this trend. This is the case because the country continued developing its export-led model by increasingly exporting out of Europe.”

Does Germany’s unique path, which saved the country from stagnation at least in the short term, set an example other EU states should follow? Lucio Baccaro shakes his head. The whole development was a nightmare for the single currency. While Germany became increasingly competitive with its export push, other countries developed in the opposite direction. For instance, Spain’s economic growth focused on domestic tourism and the construction industry, which at times accounted for nearly 11 percent of its gross domestic product and more than in any other European country. This boom came with an increasingly deteriorating external balance, which eventually led to a sharp correction. Baccaro believes the EU has been unable to address this imbalance to this day. If all the members of the euro zone grew more quickly, this would also benefit Germany.

Germany’s one-sided focus has consequences: the German model is starting to reach its limits beyond Europe as well. “The model is now approaching its end. After the geopolitical shock caused by the war in Ukraine, the energy crisis, and the Covid-19 pandemic, accessing export markets has become increasingly difficult,” Baccaro says. He also maintains it is already clear that trade relationships with China and Russia, for instance, have become quite difficult. The challenges posed by the green transformation and digitalization have become so great that export-driven growth, which Germany depends upon, will fall short.

There are already signs of stagnation: according to the Federal Statistical Office, Germany’s gross domestic product sank by 0.3 percent in 2023. In the first three months of this year, it increased by only 0.2 percent (adjusted). Based on their research, Lucio Baccaro and Martin Höpner think that, in order to remain economically stable in the long term, the Federal Republic needs a more balanced model. They explain that export-driven growth models normally make sense for small, open national economies such as Ireland or Swe-

den. It is extremely unusual that a giant like Germany, with over 80 million inhabitants and a large domestic market, is using this model. After all, the strong export sector has another side: a weak domestic economy. “Traditionally speaking, Germany ignores its own domestic market and makes its prosperity dependent on external demand as a result. If the export market does not continue to grow, domestic growth also comes to a halt,” says Höpner. Both researchers consider this unilateral focus to be a bad strategic decision. To have stable long-term growth, they believe the model should be oriented towards a balance between the export market and the domestic market.

What Germany needs is the courage to take an honest look at the economy in the country and address problematic areas. “Actual wages in Germany have been stagnating for several years, above all in the service sector, commerce, the construction industry, and the public sector,” Baccaro criticizes. Höpner adds that the export sector currently ties up a good deal of the workforce, which is lacking in fields like care work and the public sector.

At the same time, the state is hardly spending money on investments. “Germany is not investing enough in its infrastructure – not even in areas where this is urgently required owing to changing international competition, such as digitalization,” Baccaro observes. The researchers believe this is exactly where Germany needs to make changes to ensure healthy growth in the future and thus guarantee economic security and freedom. “To ensure that domestic demand contributes to prosperity, real wages and public spending need to increase. We need enormous investment for the green transition, among other things,” Baccaro concludes. “The effects on the debt

level in relation to the gross domestic product depend on the effects investments have on growth and the development of interest rates. More public investments do not necessarily increase the debt ratio.” In any case, Germany can afford to increase its debt ratio to make reasonable investments in infrastructure and for other purposes, such as decarbonization and digitalization.

The course German economic policy will take remains to be seen. One thing seems clear: only if Germany – the economic heavyweight – and with it all of Europe prospers economically will people’s faith in the EU be rewarded.

[www.mpg.de/podcasts/recht-schafft-freiheit](http://www.mpg.de/podcasts/recht-schafft-freiheit) (in German)

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## SUMMARY

As an association of states, the EU cannot be measured by the standards of a parliamentary democracy. It is not a state, but rather the highest layer of a multi-level system borne by the member states. The EU creates freedom, especially economic freedom: its provisions assert individual freedoms for EU citizens and member states and create security. The German export economy has profited well from the advantages of the single market and the euro. Researchers argue that, to remain stable in the long term, Germany must concentrate less on exports, focus more on its own domestic market, and create a more balanced system that is less dependent on external demand.