Chapter 7
Can We Explain German and French Trajectories in the 2000s by Their Institutional Setting During Fordism?

Nicolas Canry

7.1 Introduction

A common explanation to German economic success for 10 years has been its ability to reform its labour institutions: from 1990, the percentage of firms abiding by the traditional sectoral contracting wage-setting system decreased significantly, allowing new firms to pay lower wages. This increasing heterogeneity of firms would explain, to some extent, the rising wage inequality observed in Germany for 25 years (Dustmann et al. 2009; Card et al. 2013). The Hartz laws (2003–2005) were also supposed to strengthen labour market flexibility by reducing reservation wage and implementing active labour market policy, by creating mini-jobs, etc. (Eichhorst and Marx 2009. The adoption of working time accounts also allowed to adjust employment volume by working hours rather than hiring and firing (Burda and Hunt 2011; Blot et al. 2015). This widespread set of reforms implemented by Germany would explain how Germany managed to cross the *subprime* crises without lasting fall of employment. This success also contrasts with "sclerotic" French economy, unable, according to many economists, to evolve so as to take globalization constraints into account and to reform its institutions (Hairault 2015) or to promote trust and cooperation (Aghion et al. 2010).

In previous works (see Canry 2005 for a synthesis), I showed that German economy had experienced a Goodwin cycle (Goodwin 1967) between 1950 and 1990. In the 1980s, German followed the Helmut Schmidt "theorem" and succeeded in restoring profits, investment, competitiveness and eventually employment (unemployment rate is below 5% in Federal Republic of Germany just before the reunification). Approximately at the same period, France launched competitive

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disinflation, but profit recovery did not translate into sufficient capital accumulation, in spite of commercial balance recovery during the 1990s: France remained trapped in a high profitability/low employment equilibrium at this period.

Following Soskice and Iversen (Soskice and Iversen 2005), we can assert that German growth regime rested for a long time on strong institutional complementarity between a non-accommodative central bank (the Bundesbank) and a wage bargaining led at a macroeconomic level (Calmfors and Driffill 1988) by trade unions (especially IG Metall), sufficiently "concentrated" to take central bank reaction into account. We can imagine that this original wage labour nexus has been destabilized by the entry of Germany in the Eurozone, which weakened the narrow relationship between central bank, employer associations and trade unions: domestic unions could have considered that their "responsible" action would be far less likely to have a sensible effect on wages at the European level. Central bank would now react to Eurozone's inflation, which would depend on strategies of all European unions. This fear may have increased the willingness of employer associations to leave branch agreements and decentralize wage setting process (Dustmann et al. 2014). Germany would then have switched from a coordinated to a more liberal market economy (Hall and Soskice 2001).

The objective of this paper is not to minimize the importance of institutional change in Germany. Nevertheless, I show in this paper that beyond reforms and institutional transformations implemented by Germany for two decades, the economic success that this country has been currently experiencing rests fundamentally on the same devices and macroeconomic closure as before (since WWII). To support my analysis, I compare France and Germany growth regimes since 2000. In fact, I assert that France and Germany have been facing common characteristics and pretty close macroeconomic constraints, i.e. a significant excess of private saving on domestic private investment, especially investment by firms.

7.2 Analytical Framework

I adopt a very simple Keynesian perspective, in which excess of saving has depressive effect on production level and activity. In the simple Keynesian model (closed economy, no state), the higher the saving rate of the households (or the national saving rate), the weaker the level of activity.

Since 2000, continental Europe – more specifically northern continental Europe – suffers from saving glut (as worldwide economy, Bernanke 2005). Nevertheless, continental Europe (contrary to worldwide economy) is not a closed economy; thus equilibrium on the financial market between global net borrowing and lending rests on the following equation:

$$S = I + (G - T) + (X - M)$$

In that perspective the issue of excess saving in some area can be solved by:

– Increasing (private) investment.
– Increasing public deficit, by raising government spending and/or reducing fiscal policy. State may be more likely to adopt this "solution" if it expects a reverse situation, (i.E. an excess of private demand over the supply of goods) in the future. In that sense, dig public deficit could be considered as an intertemporal equilibrium solution.
– Increasing commercial balance of trade (net exports). This last strategy can be considered as the "supply" strategy to overcome macroeconomic demand constraints: For an open economy, competitiveness reflects the ability to sell production abroad, regardless of domestic income distribution. In a worldwide economy, competitiveness and positive commercial balance may be the most efficient way to ensure that supply creates its own demand. On the contrary, the lack of competitiveness can exacerbate the gap between domestic supply and demand of goods, as a growing part of national incomes flies away through imports. That is the main reason why some wage-led economies in the closed framework of Fordism have become profit-led with deepening globalization (Bowles and Boyer 1995).

7.3 French and German Economic Situations for 20 Years

Figure 7.1 displays that France and Germany have been facing a pretty similar "constraint" – i.e. a significant private saving glut – from 1995 to, at least, 2008 (note that we usually present data since 1950 for France and only since 1991 for Germany, as German national accounts have available data only from this date).

The two countries have nevertheless adopted very different ways to escape from (or "solve") this constraint and fill the gap between S and I. The way that each country took last decade is closely related to the "*mode de régulation*" that had been adopted after WWII, during the Fordist era:

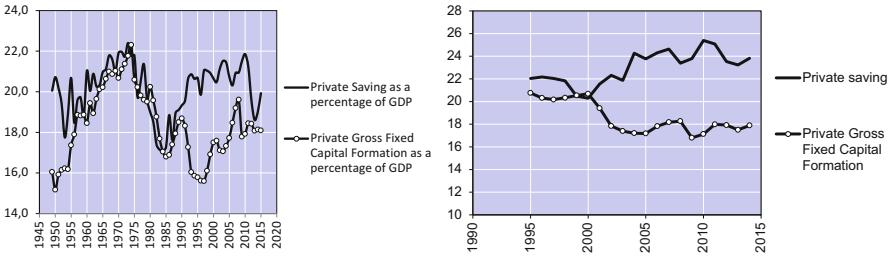

Fig. 7.1 Private saving and investment as a percentage of GDP, France 1949–2014 (left) and Germany 1995–2014 (right). Database: National Accounts, INSEE (France) and Eurostat (Germany)

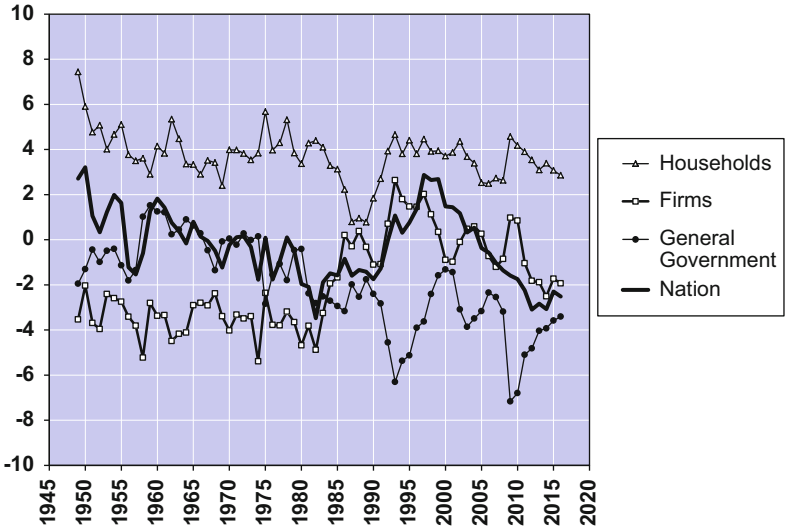

Fig. 7.2 Net borrowing/lending of sectors as a percentage of GDP, France, 1949–2014. Database: National Accounts, INSEE

– Figure 7.1 clearly displays the tenuous relation between private saving and investment in France up to the middle of the 1980s. Then, saving rate increases as investment drops. French saving excess has translated into higher government deficit (as shown on Fig. 7.2). The gap between private investment and saving narrows from 2000 to 2007 as investment takes off. Unfortunately, the bulk of this private investment comes from real estate by households (as it is displayed by Fig. 7.3 describing the evolutions of French households investment), which eventually fed bubble rather than "productive" capital accumulation and, eventually, productivity of firms. Moreover, the increase of real estate prices has exacerbated investment increase (at current prices). If we focus on saving, the main fact concerning France is that the national (private) rate is quite stable in the long run, if we except the deterioration over the periods 1980–1985 (period of deep wage austerity) and 2010–2015. In that perspective, French trajectory for 20 years seems to be very similar by many aspects (real estate bubble, growing trade imbalance, important government intervention, etc.) to the United States' (the similarities between French and American growth regimes had already been underlined by Boyer and Julliard 1992), even though the United States didn't suffer from a domestic saving glut (but rather from an "imported" saving glut, consecutive to a strong demand for safe assets – American treasury bills – coming from the rest of the world (Caballero et al. 2016), as American household saving rate was very weak for 15 years (around 2% in 2008, just before the triggering of *subprime* crisis).
– On the contrary, Germany has bypassed the Keynesian constraint or the Say's law – I.E. German produced far more industrial goods than the quantity its own domestic demand could absorb – By managing to export massively its domestic production (it is also noticeable that Germany didn't experience any real estate

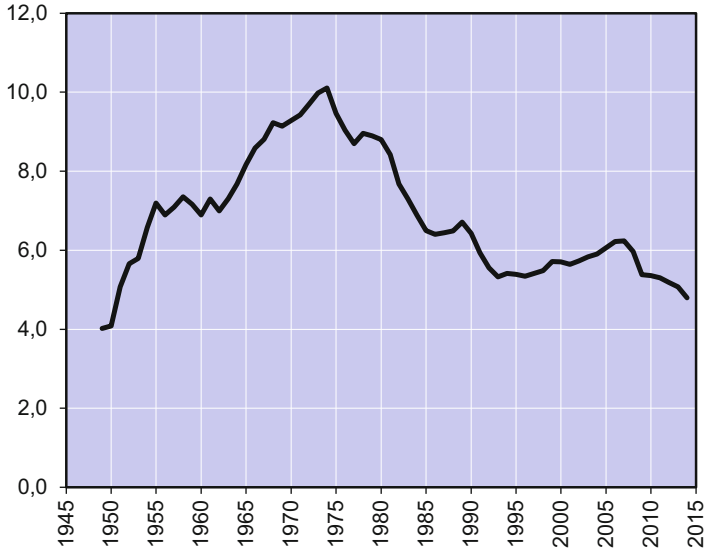

Fig. 7.3 Real gross fixed capital formation by households (excluding unincorporated enterprises) as a percentage of real GDP, France, 1949–2014. Database: INSEE, National Accounts

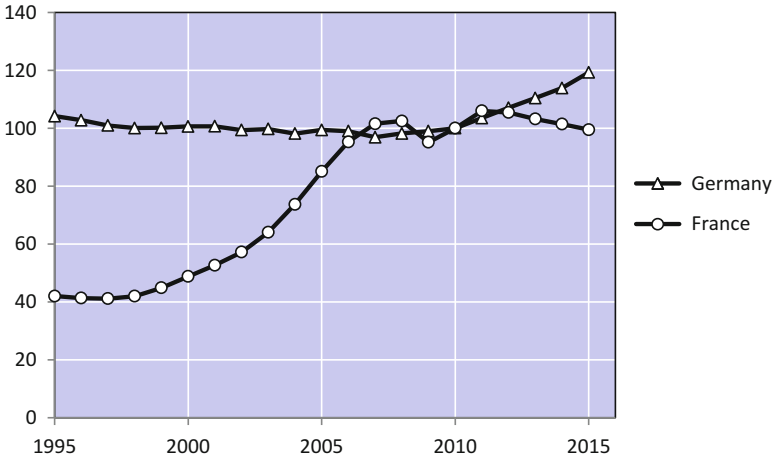

Fig. 7.4 Nominal house price indices, 2010 = 100, France and Germany, 1995–2015. Database: OECD, OECD.Stat

bubble, at least before the *subprime* crisis; see Fig. 7.4). In that sense, Germany macroeconomic regulation during the 2000s does not differ so much from that which was led during the 1980s (as West Germany became the first worldwide exporter) or even in the 1950s: German industrial and geographical specializations allow this country to counterbalance weak domestic consumption (more

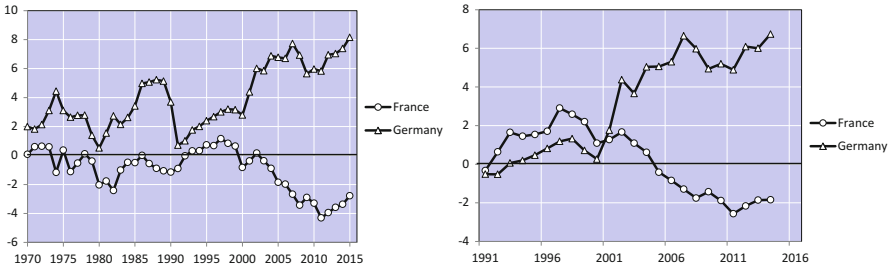

Fig. 7.5 Trade balance (1991–2014, left) and goods trade balance (1970–2015, right) as percentage of GDP, France and Germany, 1970–2015. Database: OECD, OECD.Stat

generally: Weak demand), potentially induced by wage austerity, by wider trading openness. Figure 7.5 exhibits the net contrast between France and Germany in terms of international openness (note that the left side of the figure focuses on goods trade balance, for which OECD data are available from 1970): Goods trade balance as percentage of GDP reaches 5% for Germany in 1987. Actually, the strong demand shock consecutive to reunification and the decision to fix the exchange rate between Ostmark and Deutschmark to unity have temporarily concealed, during the 1990s, this long-lasting German "export strategy". This decision of parity between the two currencies by H. Kohl (which had probably a very political and symbolic dimension) deteriorated competitiveness of east German firms but sustained in the same time the purchase power of eastern households, which spectacularly boosted demand addressed to west German companies. Between 1990 and 1995, inflation accelerated (the Bundesbank reaction had dramatic effects on exchange rate stability within the "Eurozone" and was responsible for the recession of 1992–1993 in Europe; see Fitoussi 1995), and commercial balance deteriorated in Germany. But the "export-led" strategy reappeared globally as efficient as before, from 2000 onwards.

7.4 Why Did a Situation of Private Saving Glut Occur?

Some leading European countries have been facing a saving glut for many decades. By this, I mean that private saving largely exceeds the needs or desires of investment by private domestic agents, as it is emphasized on Fig. 7.1 in the French and German cases.

Data show that saving glut in France primarily results from a relative investment shortage arising from the end of Fordism during the 1970s (private saving seems to have remained pretty stable over time, so that we should rather speak either of a relative saving glut or an investment shortage). We can bring two main explanations to this investment slowdown: on the one hand, the volume of investment in real estate (at constant prices) by households reached a peak at the beginning of the 1970s

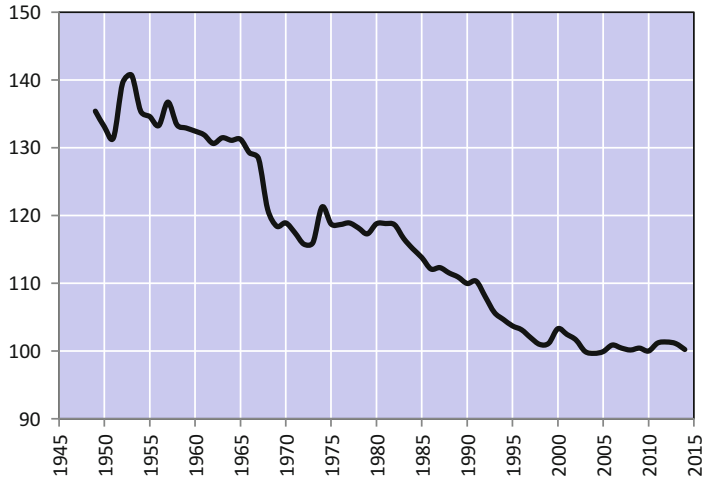

Fig. 7.6 Relative price of gross fixed capital formation (by corporations and unincorporated enterprises) to GDP. Relative price = 100 in 2010. France, 1949–2014. Database: INSEE, National Accounts

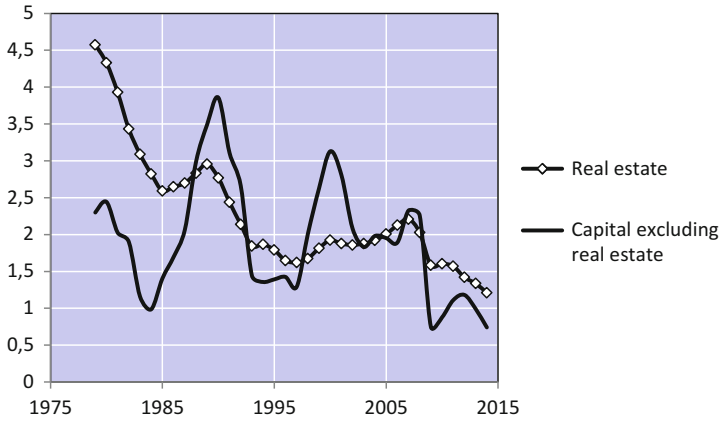

Fig. 7.7 Rate of net capital accumulation (%), France, 1979–2014. Database: INSEE, National Accounts

then decreased for 20 years before stabilizing after 1995. On the other hand, the relative price of GFCF to GDP has sharply fallen between 1950 and 2000 in France (around – 35%; see Fig. 7.6) as in the bulk of developed countries.

According to Summers (2015), this price effect might explain a large part of the saving glut which appeared all around the world since 2000: the accumulation of capital in volume did not significantly decline (if we exclude real estate) over this period (see Fig. 7.7 in the case of France), but capital accumulation at current prices did, as capital price has been falling (nonetheless such an assumption requires an

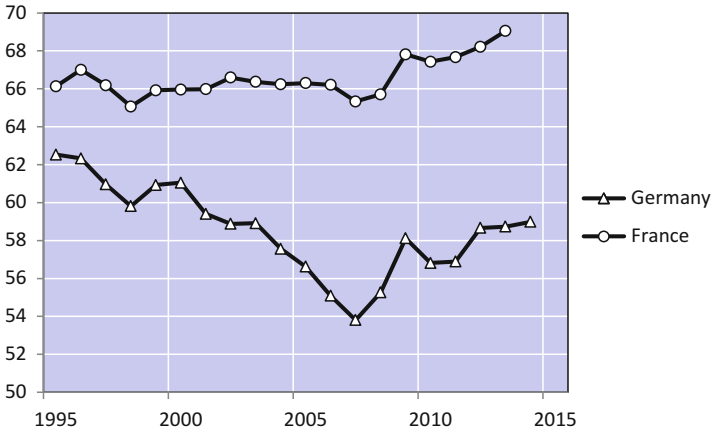

Fig. 7.8 Wage share in value added at factor prices (%) in nonfinancial corporations, France and Germany, 1995–2014. Database: Eurostat

elasticity of substitution inferior to one between labour and capital in the production function).

If we now focus on Germany, the gap between private saving and private investment is greater than in France, especially since 2000 (unfortunately, data are not available before 1995 for Germany): the gap reaches up to 7 points of GDP for the years preceding the *subprime* crisis and remains high thereafter. For Germany, this is the consequence of two diverging effects: on the one hand, the increase of national (private) saving rate between 2000 and 2005 and, on the other hand, the concomitant drop of investment rate. In Germany, households' saving rate has remained pretty stable since 2000, fluctuating between 15% and 17% (a bit higher than in France). However, as depicted in Fig. 7.8, primary income distribution fluctuated a lot over this period (whereas it remained very stable at the same period in France): the wage share in value added at factor prices (i.e. the sum of compensations of employees and gross operating surplus) of nonfinancial corporations dropped of 7.2 points of percentage between 2000 and 2007 (and even 8.5 points since 1995). As saving rate (gross saving related to gross value added) by firms is bigger than households' one, such a change in income distribution mechanically increased national saving rate.

The sharp wage share decline in the 2000s could result from institutional change (previously mentioned) that occurred on the labour market in Germany, but it can also be consecutive to the high level of unemployment faced by the country during the 1990s (the unemployment rate reached 9.7% in 1998). This high unemployment level might have weakened the bargaining power of trade unions, as in the beginning of the 1980s. Actually, Fig. 7.9 confirms that unemployment rate has remained a strong determinant of real wages in Germany (unlike France where the relationship between unemployment and real wage growth is insignificant). Furthermore, Fig. 7.10 shows that unit labour costs, which had increased significantly just after

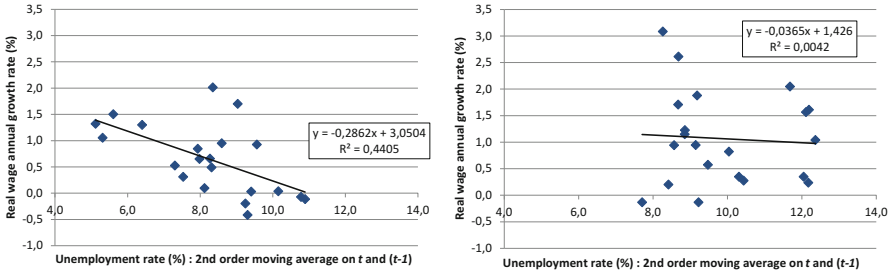

Fig. 7.9 Annual real wage growth and unemployment rate, Germany (left) and France (right), 1994–2014. Database: OECD. Statistics on employment and the labour market

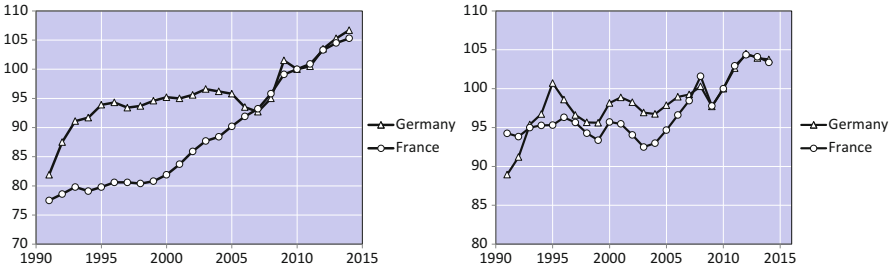

Fig. 7.10 Unit labour costs based on worked hours (left) and export price deflator (right), France and Germany, 1995–2014. Database: Eurostat

reunification, remained quite stable between 1995 and 2007 in Germany: even though it is often underlined that specialization on high-quality goods make German exports weakly sensitive to prices, wage austerity most probably allowed Germany to keep very stable export prices (at least before the *subprime* crises), without squeezing markups, which strengthened its competitiveness (Kollmann et al. 2014).

The dramatic change in income distribution that resulted from austerity during the 2000s had very likely a strong negative incidence on domestic demand (Carlin and Soskice 2009), as France painfully experienced it after competitive disinflation in the 1980s, but the "extraverted" growth regime that Germany set up in the 1950s actually allows this country to avoid such a "domestic demand trap": exports absorb the gap between production and domestic consumption. Moreover, the wage austerity was more likely to be sustainable as households didn't face any real estate bubble. Nevertheless, such a *mode de régulation* requires "consumers of last resort" overseas....

7.5 The Very Contrasting Role of the State in France and Germany

This article fundamentally rests on (and supports) the idea developed by Bofinger (2016). According to Bofinger, the "German macroeconomic paradigm" since WWII is the legacy of Walter Eucken's thought which departs strongly from Keynesian analysis and gave birth to ordoliberalism. According to Eucken, macroeconomic policy must rely on price stability, prices flexibility and balanced fiscal budget. This analysis rejects any strong economic role to government, especially concerning cyclical regulation and countercyclical policy.

Figures 7.11 and 7.12 plot the scatter linking public deficit at date *t* and the average annual growth rate of real GDP 2 years before (i.e. the annual average growth rate of GDP from *(t-2)* to *t*). This relationship is supposed to capture the importance of the government countercyclical policy. The scatter for France since 1960 exhibits a very positive, stable and significant relationship, emphasizing the very "Keynesian" nature of French government. Figure 7.12 compares this relationship in France and Germany since 1991 and clearly shows that this relationship is far less tenuous in the case of Germany. This supports our idea that public spending keeps playing a central role in the macroeconomic closure in France but not in Germany, where government does not seem to play historically a central role to fill the gap between private investment and saving, unlike France.

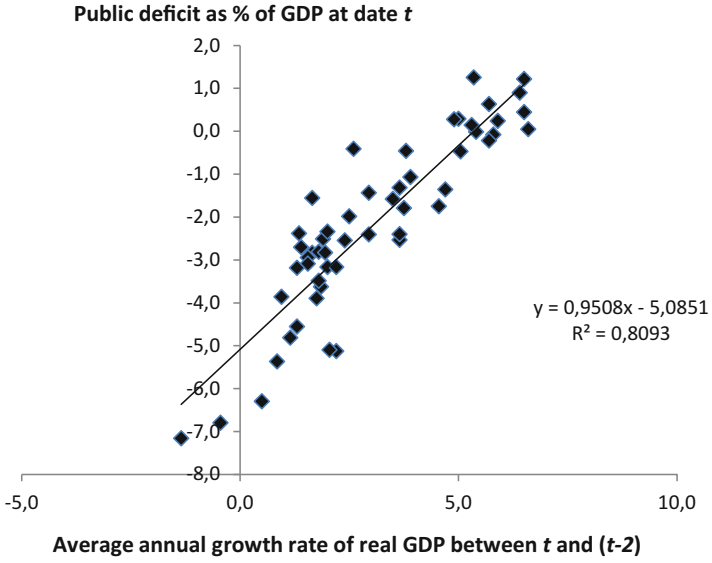

Fig. 7.11 Moving average annual growth rate of real GDP (%) between dates $(t - 2)$ and t and public deficit (%) at date t, France, 1960–2014. Database: National Accounts, INSEE

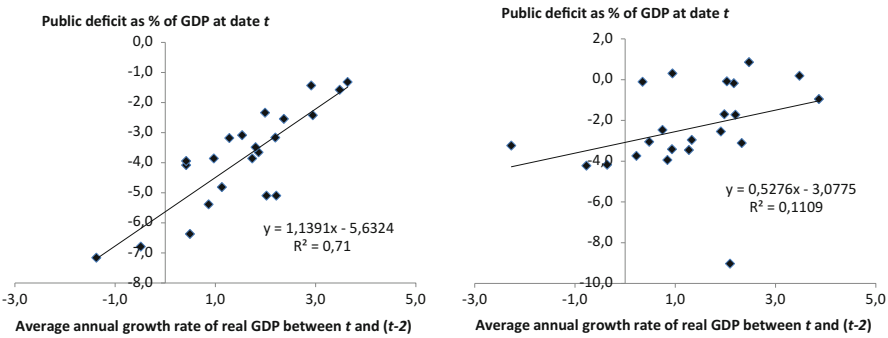

Fig. 7.12 Moving average annual growth rate of real GDP (%) between dates ($t - 2$) and t and public deficit (%) at date t, France (left) and Germany (right), 1991–2014. Database: National Accounts, INSEE (France) and Eurostat (Germany)

7.6 Consequences for European Integration

Germany is very representative of the economic situation in Northern Europe. Indeed, it turns out that Eurozone has been divided for 15 years between "North" – the bulk of Scandinavian countries, the Netherlands and Germany, all exhibiting significant trade surpluses – and "South," Spain, Portugal, Greece and, to a less extent, Italy and France (these countries exhibit trade deficits, and they can be considered as consumers of last resort). Actually this kind of "European imbalances" could be sustainable from a theoretical standpoint: Northern Europe can be considered as a very mature economy, richly doted in capital, whereas Southern Europe keeps on catching up, especially by accumulating capital. In this frame, saving from northern households is lent to firms in the South, where (marginal) capital productivity is higher. South countries finance their capital accumulation and development by borrowing abroad. Higher productivity induced by additional capital should eventually reduce competitive gap between North and South. . . . These two different "growth regimes" could therefore coexist in the European frame, thanks to their complementarity in terms of saving.

In practice, unfortunately, saving glut from Northern European countries fuelled real estate bubbles, rather than productivity, in southern countries, where inflation has eventually been higher (compared to Northern Europe). In that sense, Europe suffers from a bad allocation of capital (too little has been dedicated to productivity growth and innovation), which has destabilized the complementarity between North and South. Finally, as European Union is not an optimal monetary zone yet, inflation differentials and the impossibility for southern countries to devaluate their currency have exacerbated the competitive gap between North and South. Europe is then confronted to the difficulty, underlined by R. Boyer (Boyer 2018) in this present book, to make coexist different *modes de régulation* in the absence of exchange rate flexibility.

Moreover, focusing on international competitiveness to deal with the issue of domestic demand failure consists for Northern Europe in exporting its own constraints on other European "partners". Such a strategy clearly appears nowadays as non-cooperative from a European standpoint (especially since crises in Greece, Ireland and Spain have broken out). What was considered as competitive institutional device in the frame of nation-states might be viewed as a brake to European integration from now on. In that perspective, a "cooperative" strategy for Germany could be to further support its domestic demand and to accept, for example, to increase its own wages, which would release competitiveness constraints currently faced by Southern Europe (available data for the last years suggest that such a dynamics might be beginning). We think this cooperative solution, joined with the building of a strong fiscal harmonization, might be the only way to continue successfully the European integration process.

7.7 Conclusion

In this article, I try to characterize the mean by which two countries, France and Germany, manage the potentially destabilizing (for economic activity) gap between private investment and saving. I show that in spite of the very sensitive institutional changes that the two countries set up since 2000 (in particular Germany on its labour market), the two countries maintained, broadly speaking, specificities of the *mode de régulation* they had built few decades ago, during Fordism: in Germany, weak public intervention, wage bargaining focusing on unemployment and export-led growth to compensate the possible deficit of domestic demand and in France, stronger importance given to government spending to stabilize activity.

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