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# Germany's anti-social market economy

## The problem isn't Germany's economic model, but its erosion. Labour market, education and taxation require urgent reform

*Read this article in German.*

At the moment, public debates about the rising cost of housing, inequalities in wealth and wages, and other social issues run high on emotions. Revolutionary ideas that question the entire system are beginning to emerge. But to say it right in the beginning: in Germany, we already have the right economic model.

Thanks to the success story of the social market economy, Germany had its *Wirtschaftswunder* after World War II along with many other economically robust years. Recently, however, the social aspect of this economic system has been strongly neglected. That's why we urgently need adjust its structure here and there.

We can look at a few basic facts to understand why this is necessary: in Germany, nine years of sustained economic growth along with record employment have been accompanied by one of the largest low-wage sectors in Europe and a rising at-risk-of-poverty rate. Around 40 per cent of the German population have no savings and no old-age provision. In no other country in Europe is it so difficult to achieve upward mobility through education, as the OECD has regularly stated.

## More poverty, less mobility

Considering these contradictory developments, it's hardly surprising that we currently have tough debates about the social market economy. And since forecasts are now pointing to an economic slowdown, this debate will not die down quickly. If the life for lower income groups could not

be improved during a financial boom, how is it supposed to succeed in the next recession? The result will be an increasing polarisation in our country and it's important to address this discontent seriously and urgently.

A closer look at the low-wage sector should make the problem obvious. While it's true that the unemployment rate is lower than ever before, around eight million employees were in low-paying jobs during the economic boom of 2017 – for their main occupation. That's an increase of nearly three million compared to 1995.

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One out of every four employees – predominantly women, single parents, and migrants – work full-time for less than €10.80 an hour, or 60 per cent of the median hourly wage. This figure is considerably higher than the average in the rest of Europe, where only one-sixth of the labour force is employed in the low-wage sector. But far worse is the fact that two-thirds of the employees in the low-wage sector in Germany are unable to make the transition to higher-wage segments. And so employment itself no longer provides proper protection against income poverty.

However, long-term full-time employment in the low-wage sector means that, sooner or later, these people will be dependent on social benefits because they will not be able to pay rising rents. Due to their low pension rate, they will be forced to claim the guaranteed minimum social welfare payment. The risk of poverty in our society rises accordingly, even as the economy is booming. While the at-risk-of-poverty rate was 11 per cent in the mid-90s, 20 years later it has climbed to an average of around 17 per cent. In short: the much talked-about boom of recent years has never reached a significant share of people.

## Lifelong learning is essential

But what does all this mean for politicians? How can they prevent the social market economy from being eroded further? How can they reduce inequality so that fewer people are dependent on benefits from the welfare state?

The different types of social benefits need to be more effectively coordinated. Doing so would encourage low-wage earners from declining to take better-paying jobs out of fear that their social benefits will be cut.

Where's the incentive to work more or to be better paid if it isn't worthwhile? But it's not enough to reform the social system alone – that would just treat the symptoms rather than the cause.

In my opinion, we need to apply four approaches to work, education, taxation, and old-age pensions to make our market economy more social. On the one hand, we should work towards ensuring that more employment contracts with collective bargaining agreements are concluded, as in the past. Few, if any, employment contracts in the low-wage sector have collective bargaining agreements, and the number is decreasing from year to year. Therefore, many workers have little negotiating power with their employers. Although the introduction of the minimum wage in 2015 increased wages in Germany, it did not change the size of the low-wage sector.

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For employment to be worthwhile again, we have to not only shrink the low-wage sector considerably, but people must also have better opportunities for upward mobility. Therefore, and this is my second point, we should create greater incentives for further education and training: on the one hand, for the low-skilled, who are often in lower-paying jobs; and on the other hand, for the better-qualified, since globalisation and digital transformation will required continued education.

The principle of lifelong learning should be internalised by both employers and employees. Politicians must create conditions that will support education. Moreover, a life savings account could also incentivise every individual to take advantage of opportunities for pursuing further education or setting up a business.

## A true social market economy

Thirdly, the tax system should be fundamentally reformed. Germany taxes income at unusually high rates, while income on wealth is unusually low. We have to change this, and soon. In order to make work worthwhile again, especially for women who make up the majority of part-time workers, the splitting of income taxation between marital partners should be abolished. Not only will this increase the number of people in employment, it will also protect these women against old-age poverty.

Fourth, I propose a sovereign wealth fund, similar to the one in Norway.

The fund strategically acquires stakes in private companies – but without interfering in private sector decisions – to take part in their success and to use the returns for the social security of their own population. Especially in an ageing society like ours, such a sovereign wealth fund could make a valuable contribution to people's retirement.

We need to realise that record employment and a low unemployment rate are desirable. But just creating any kind of work isn't necessarily good for people and society – good work is. This should include both living wages, and the opportunity for professional and social advancement. Otherwise, our market economy does not deserve to be called a 'social' market economy.

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**Marcel Fratzscher**
Berlin

Prof Marcel Fratzscher is President of the German Institute for Economic Research (DIW Berlin) and Professor of Macroeconomics and Finance at the Humboldt University Berlin.