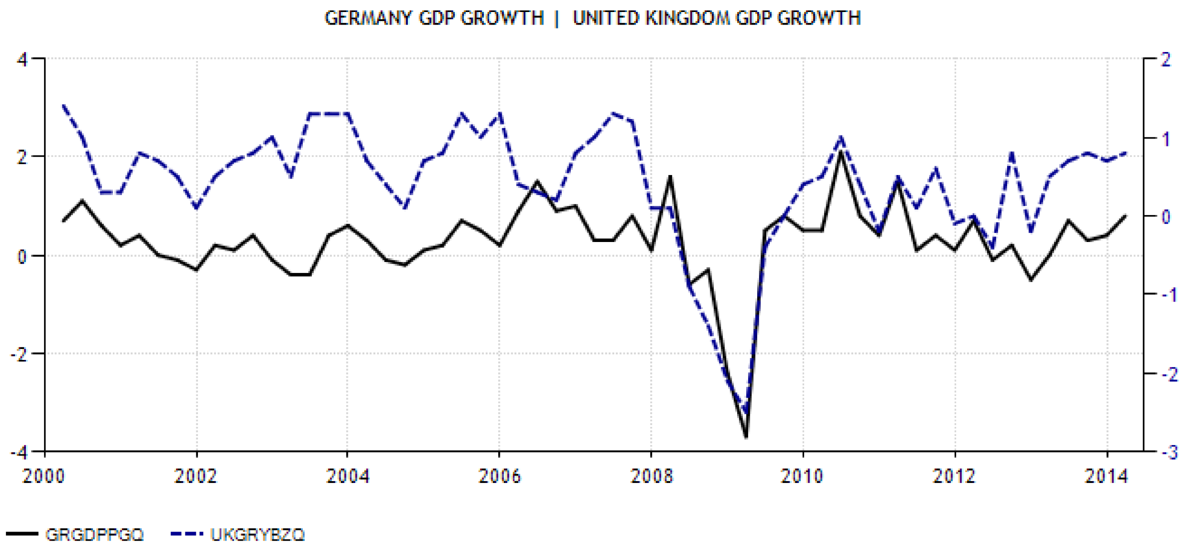
Germany: a case study in the post-growth economy?

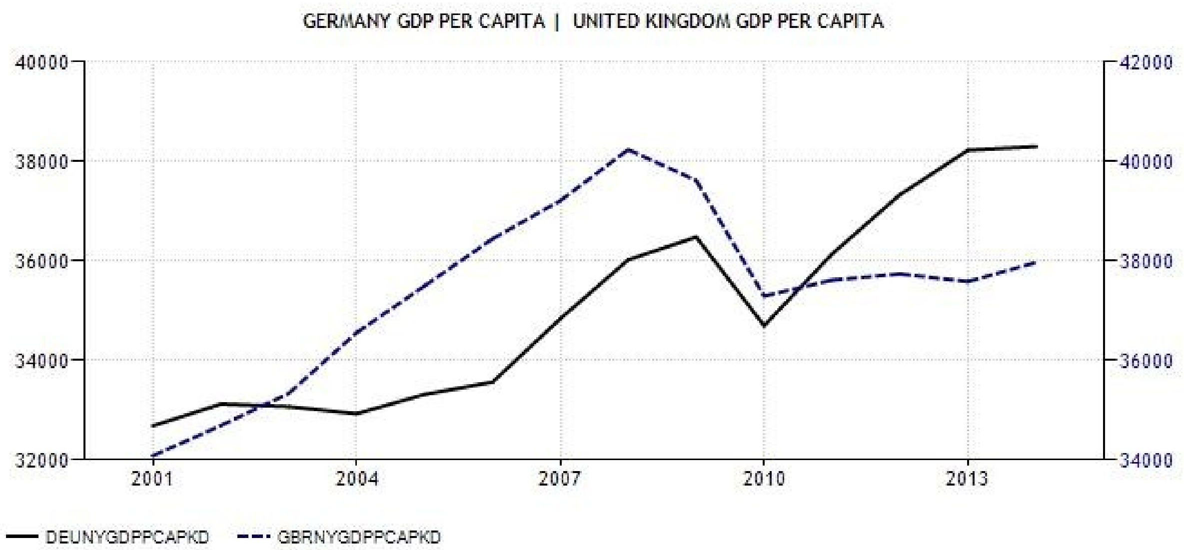
We can't possibly do without economic growth! This is the mantra repeated by the political and economic establishment, from the far right to the Trade Union movement's leadership. This claim we know to be illiterate in terms of social welfare, distribution and ecology (Burton & Steady State Manchester, 2012), but could an economy actually function without growth?
There have been attempts to answer this question by ecological economists Peter Victor and Tim Jackson. Victor conducted macroeconomic modelling based on the Canadian economy to demonstrate that growth is not necessary to prevent poverty, unemployment, and economic collapse. Jackson used this material in his Prosperity Without Growth report and book (Jackson, 2009, 2011). I am somewhat doubtful since(Victor, 2008, 2011) capitalism relies on and indeed, is for the purpose of, capital accumulation and therefore has a built in requirement for growth (Bellamy Foster, Clark, & York, 2011; Burton, 2009; James & Cato, 2014; P. B. Smith & Max-Neef, 2011; R. Smith, 2011; Tanuro, 2013). However, it is instructive to look at what is by most accounts a successful modern developed economy with low growth rates to try and understand the issues. What follows is an initial look at some of the statistics about the German economy, in comparison with that of the UK., in relation to this question.

So here is a graph showing gross GDP growth in the UK and Germany since 2000. Germany's growth rate is consistently lower than that in the UK, not just in the bubble recovery we are currently experiencing, fuelled in the UK by house price inflation and credit based consumption, but also in the years before the Great Financial Crash.



Data from http://www.tradingeconomics.com/ [1]

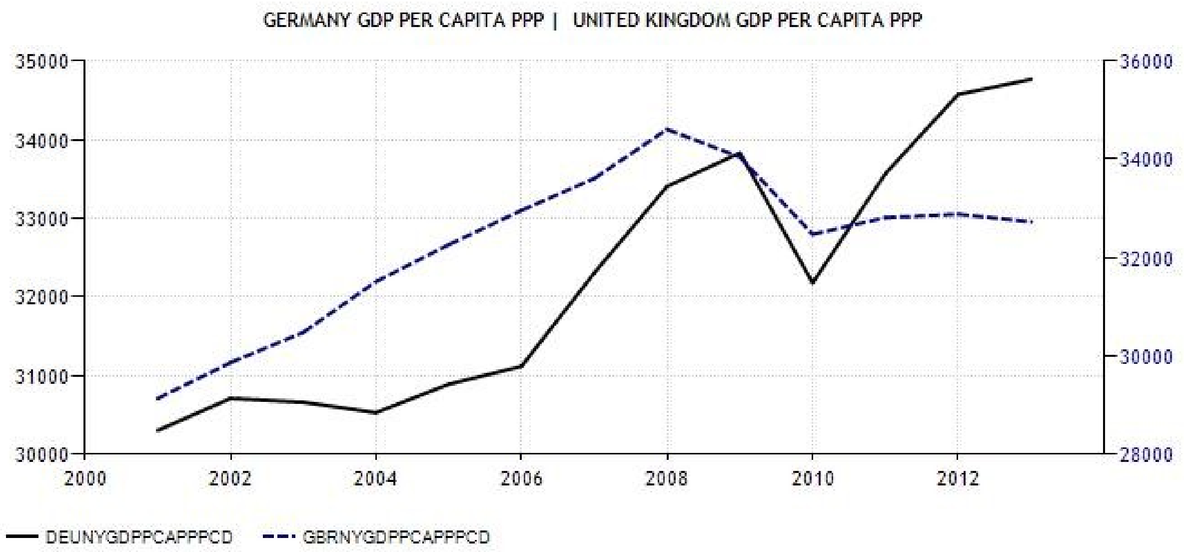
But maybe population changes mask what's really going on. Or at least the 'proceeds of growth' have to be shared among a changing population. Indeed when we look at GDP per capita, over the same period, we see the lines crossing, with the UK's supposedly higher growth cancelled out post-crash. But, these are funny times. What about before the crash? Well Germany's GDP per capita was actually lower than the UK's, and its growth had some decidedly sluggish periods.



http://www.tradingeconomics.com/

1 This useful site allows you to make your own comparisons of various countries on a variety of indicators.

But we'd better also correct for prices, using the GDP per capita purchasing power parity statistic.



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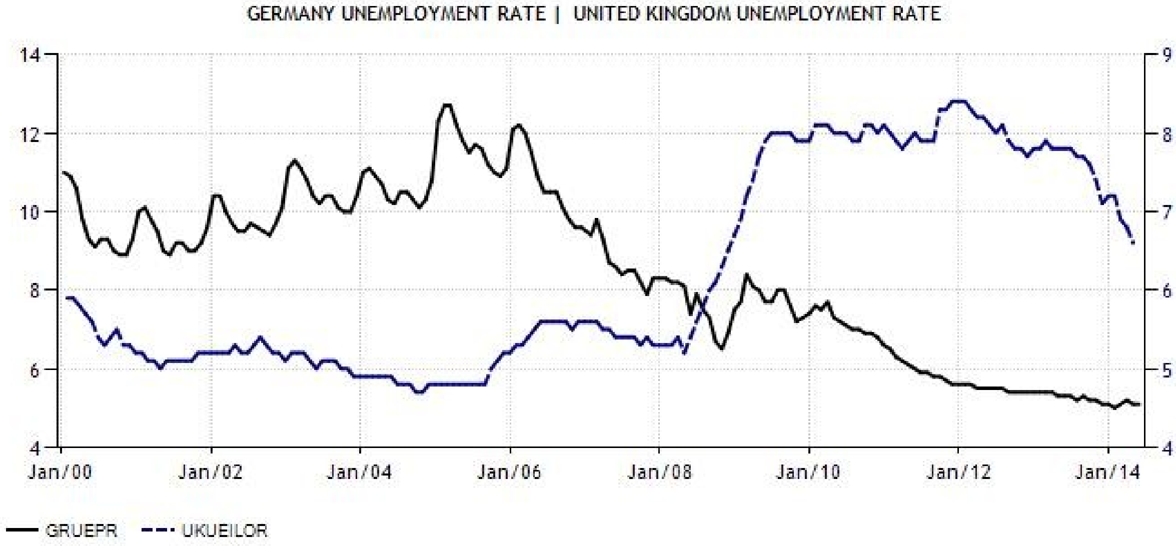
Well, the lines are a bit more angular, and the UK's 'advantage' post crash disappears further. But look at the lines before the crash: Germany is well below the UK, only rising steeply between 2006 and the crash in 2009. This no doubt reflects the hyper-development of the finance economy in the UK in contrast to Germany where manufacturing offered lower, but less fragile growth.

But as we constantly argue, we shouldn't be relying on GDP and its growth to understand anything much about the economy. What's been going on 'under the bonnet'? Firstly, unemployment was some 3% higher in Germany before the crash. But its economy was clearly more resilient than the UK's with its 'race to the top – race to the bottom' labour market, as the following comparison starkly shows.



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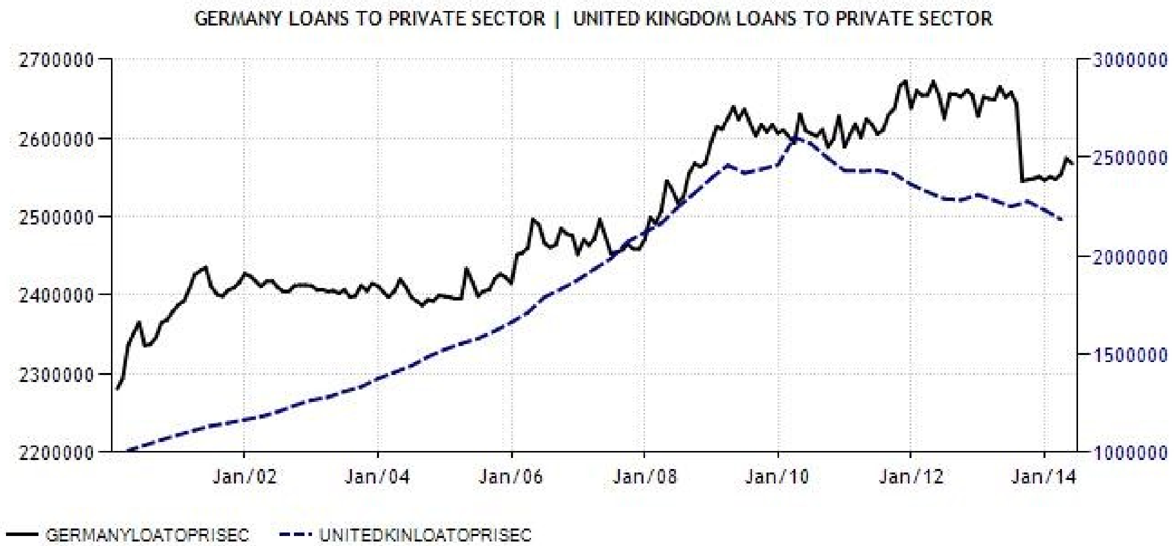
Some of the explanation for this seems to lie in the ability of the economy to invest in business. To understand the following graph, it helps to know that a) Germany has many more locally based manufacturing companies than the does the hyper-financialised UK economy, and it has local, Länder-based public sector (but not State-owned) banks, local, knowledgeable about their customers and the local business environment. And throughout they have lent at a higher rate with far less collapse in lending after the crash – something now seemingly being eroded by the Euro-crisis and adoption of austerity policies.



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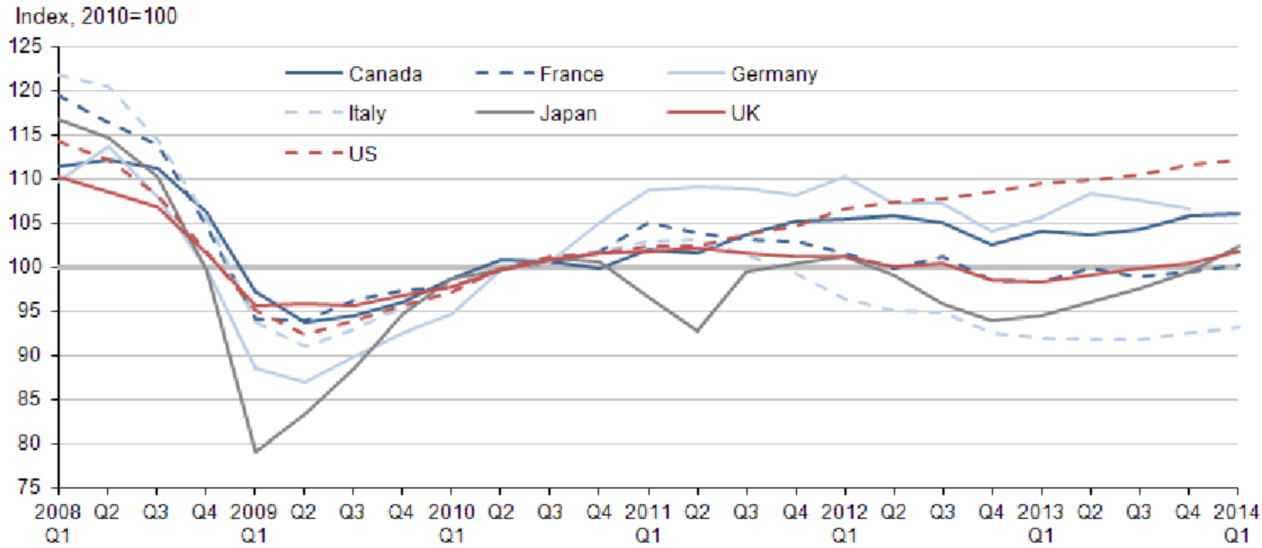
And here is further evidence of the difference, in a comparison from the UK's office of National Statistics comparing manufacturing index across several OECD countries. Germany was hit more by the crash, but its relative levels of manufacturing were higher before (so further to fall?) and are recovered better than the UK's.

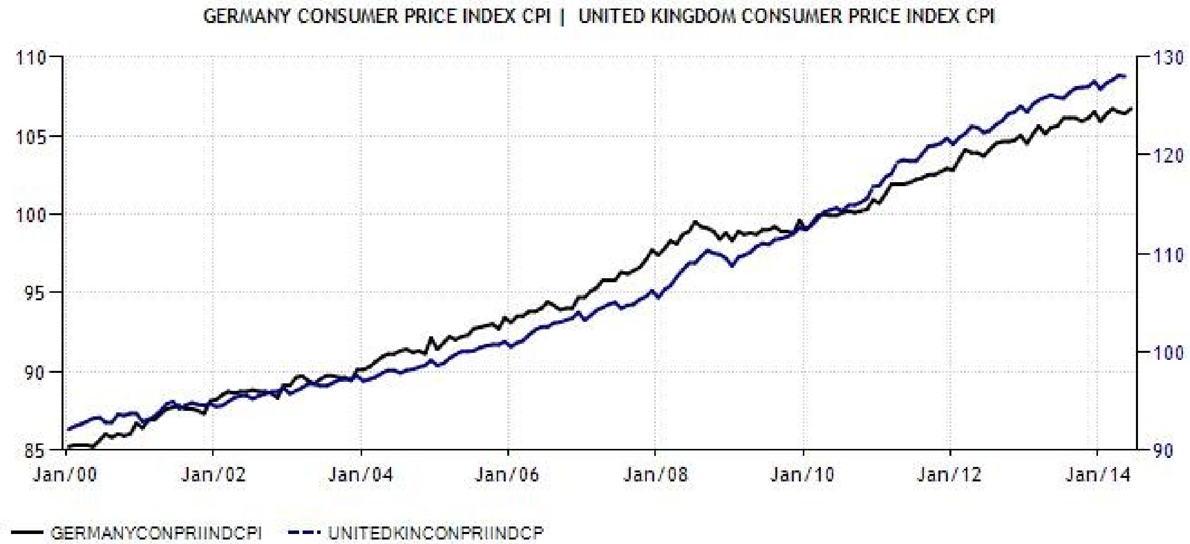
Figure 3: Quarterly international manufacturing output



http://www.ons.gov.uk/ons/dcp171778_369799.pdf

What does this mean for the people?

Well firstly it seems that although the trends have been similar in the UK and Germany, the cost of living has been lower there in recent years.



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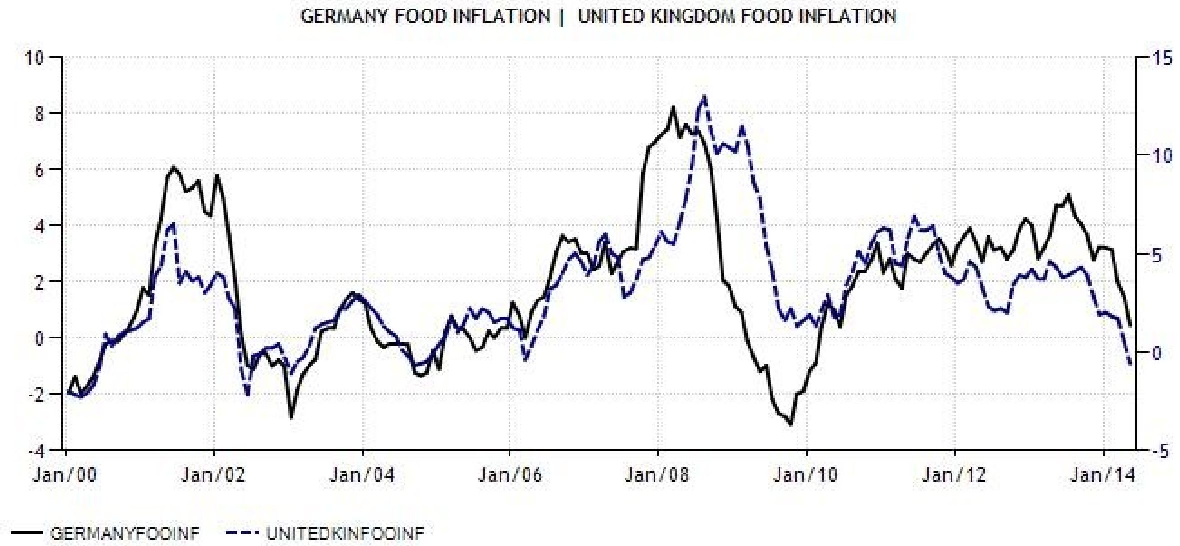
This is less clearly so in terms of food prices, where looking at food price inflation, Germany is now suffering rather higher levels – maybe that's because our profiteering supermarkets are having to race to retain and capture custom, with a price war.



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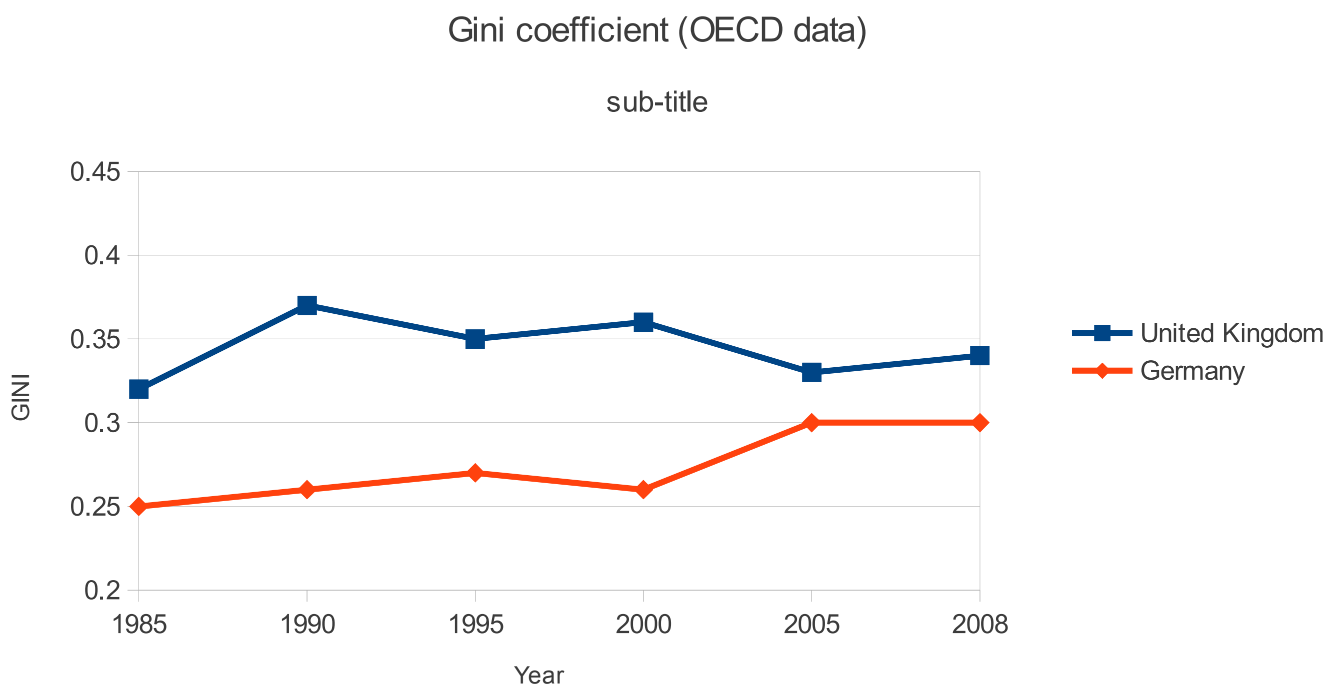
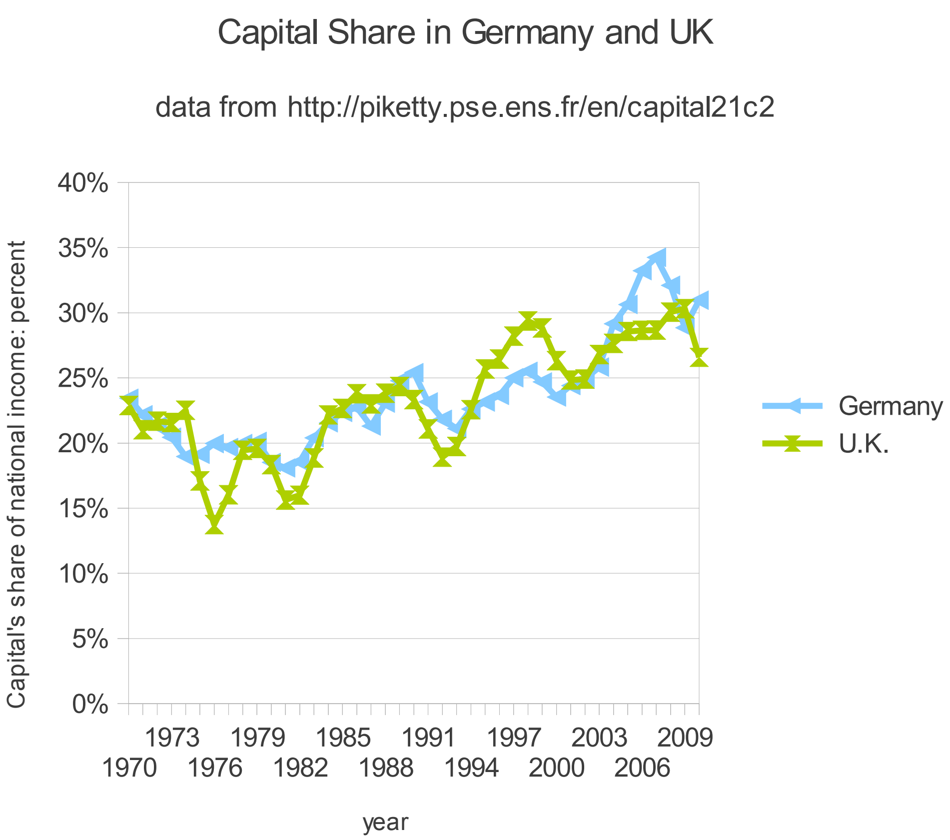
When it comes to inequality, Germany consistently does better on income equality, although the situation has deteriorated. This graph uses the Gini index, where a higher score means more inequality.



From OECD data via http://inequalitywatch.eu/spip.php?article58

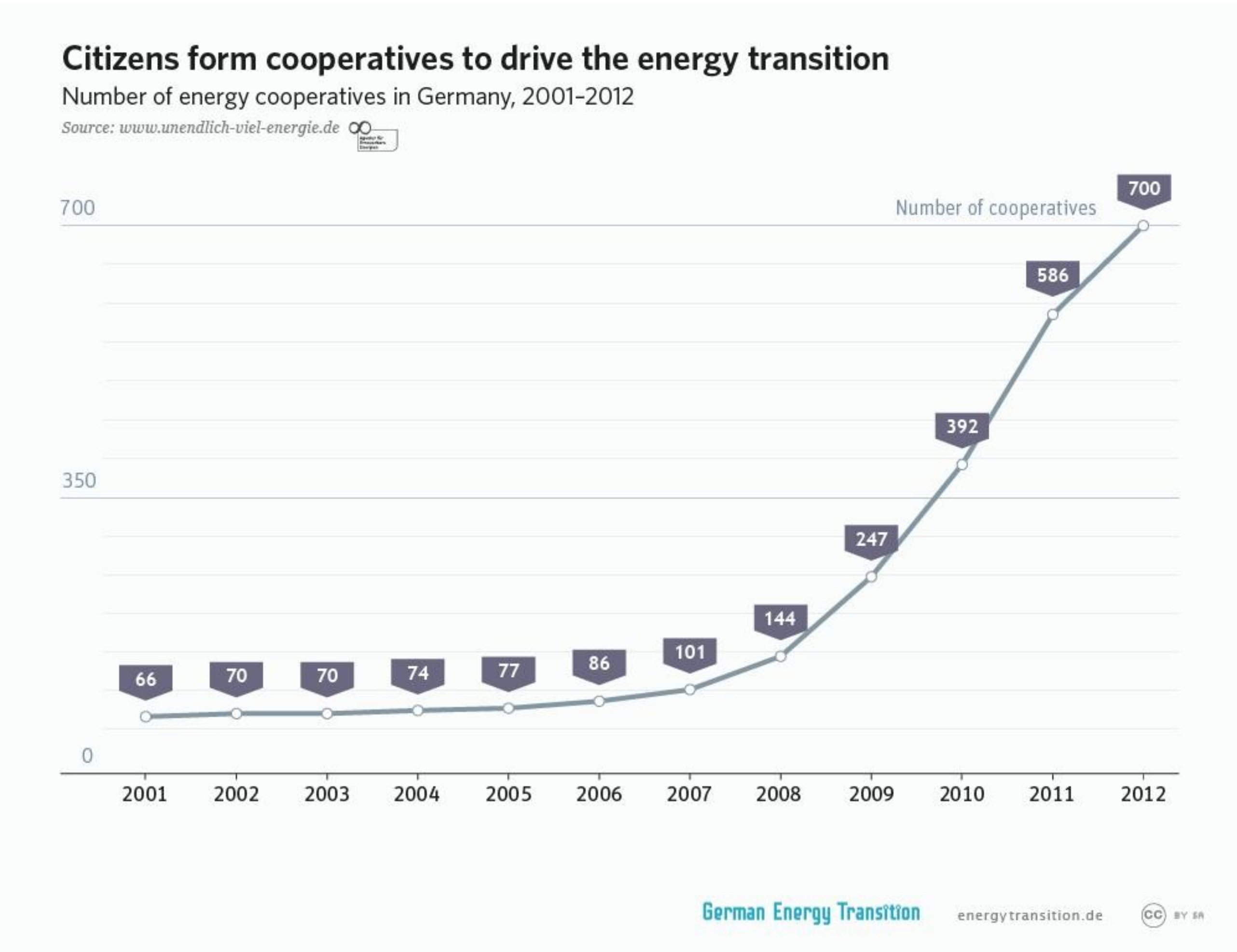
However, there is some (not very transparent) evidence that German levels of wealth-based inequality are even greater than in the UK (http://blogs.independent.co.uk/2013/10/21/wealth-more-equal-in-uk-than-in-france-or-germany/). Nevertheless, the share of national income going to capital (rather than labour seems to differ little over time between the two countries (although rising since neoliberalism became embedded) as the following graph based on data from Piketty shows. In



Germany the 'Rhineland model' of business does involve more sharing of profits between shareholders and workers.

It is, difficult to know just how all this is represented in the high level national data so conclusions about the overall 'real' inequality levels are difficult to reach, something likely to be exacerbated by the facility with which the rich hide their real wealth (offshore, or via legal tax dodges), avoiding the rather limited taxes on it.

It also seems that, in Germany, people, communities and social movements are actively investing in "sustainable communities" on a bigger scale than in the UK. An example is the growth of community energy co-operatives under the Energiewende, Germany's energy transition programme, of which there are now over 700. While this is perhaps not yet having a large effect on the overall economy, it is consistent with an economic production model that requires no accumulation/growth for its own sake, and may be both product of the particularities of the German economic and social model while heralding further change away from the orthodox model, with economic, social and ecological benefits as wealth is kept local and shared.



source: http://energytransition.de/

Conclusion
Germany is not designed to be a steady state economy, any more than other capitalist countries, and only limited conclusions can be drawn from its unplanned, pattern of low GDP growth. A steady state or post-growth economy would be one that is planed, designed, by society to secure (frugal) prosperity without growth, and all kinds of problems arise in stalled growth economies that nevertheless dominate their societies.

Germany, like the other states of the global North, is a neoliberal capitalist system: let us have no illusions about that. But it has some characteristics that mean it demonstrates non GDP-related economic and social outcomes that are rather better than those of the overall high growth, hyper-financialised and centralised neoliberal capitalist UK system. Indeed it has been suggested that in Germany there is less of a discourse about "National economic growth" than here in the UK. Capitalism needs growth, a.k.a. capital accumulation, but there is diversity within this system and the societies it dominates, as studies of inequality and related social indicators also tell us (Wilkinson & Pickett, 2009).

If nothing else the data reviewed here do suggest that, as ecological economists and others have argued, GDP and its growth tells us little about either the health and resilience of an economy, or about the experience of life of its people. But it is clear enough that living well depends on neither absolute levels of GDP, nor on its continual growth.

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