

# “GERMANY IS LIVING ON ITS CAPITAL”

The US economist David Audretsch praises Germany as a highly attractive industrial location. His French colleague Sylvain Broyer begs to differ. A debate about the industrial engine of Europe

INTERVIEW **MATTHIAS RUCH AND JÖRG WAGNER**  
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**Mr. Audretsch, Mr. Broyer, Evonik is planning to build a production plant for a high-performance plastic for about €400 million. After examining possible locations all over the world, it decided to build this complex in the German state of North Rhine-Westphalia. From your standpoint as economists and scholars who are familiar with Germany, is this a step you can understand?**

**SYLVAIN BROYER** Evonik is following a current trend, so I'm not surprised by this decision. Among the established industrial nations of the world, the G7 countries, Germany is the only one that can successfully maintain its industrial production. The chemical sector is a good example of the fact that the trend of moving production facilities abroad has been ebbing since 2013.

**DAVID AUDRETSCH** Germany is a very attractive industrial location. The level of its human capital—in other words, its workforce—is very high. That also applies to the level of its infrastructure and the level of its medium-sized companies. These are the driving forces that determine the advantages of an industrial location.

**BROYER** Mr. Audretsch, you've brought up an important point, that of the infrastructure. I agree that the level of Germany's infrastructure is good. But how long will it continue to be good? For years now, this country has been living on its capital! Just take a look at the international rankings: Germany has slipped down in the rankings for essential categories, by comparison to all of its important competitors. In terms of the quality of its flight infrastructure, the USA now ranks higher than Germany. The Americans were much quicker than the Germans to invest in this area. In terms of railroad infrastructure, even Singapore now ranks higher than Germany. And in terms of road infrastructure, Germany has been overtaken by South Korea. Germany urgently needs massive investments.

**Why have they been neglected for so long?**

**AUDRETSCH** That has been a matter of politics. The decision-makers have postponed this matter for a while. But as a wealthy and developed country, Germany still has a very good infrastructure—especially by comparison with its neighboring countries in Europe, such as Italy and France.

**BROYER** Germany's economic policy has basically rested on the

reform agenda of the Schröder administration since 2005. Back then, Germany regained its competitiveness. But since then, it has improved as an industrial location in only one important respect: the qualifications of its workforce and its high school graduates. Educational policy is the thing that Germany has done best in the past 15 years. In every other area, its economic policy has been characterized by stagnation.

**AUDRETSCH** Mr. Broyer, you've used the word “stagnation.” I would prefer to talk about Germany's stability. And that's a positive concept.

**Germany's stability also includes the model of consensus, in which political decision-makers, companies, and labor unions work together to find solutions. Isn't that a fairly strange concept for an American?**

**AUDRETSCH** You've got a point there. Americans typically reject such models, which look suspicious to them. On the other hand, thinking and planning with the long term in mind is a very positive approach, especially in the current global situation. The weakness we're seeing in the USA today is of course due to very short-term thinking. This is a very narrow mindset. By contrast, if you include the perspectives of the employers, the workers, and the government, you've got large segments of the society on board. I could even compare that with what the Chinese are doing with their planned economy. They too are capable of very long-term thinking and planning, and of developing clever strategies.

**BROYER** Mmm. When many parties have to take responsibility for a decision, Germany's philosophy of consensus really does have advantages. When people in Germany say, “We're going to do this,” the thing really does get done. However, I would criticize the comparison with China. I wouldn't say that China has a philosophy of consensus, because China is definitely not a democracy. However, China does have the possibility of enforcing the government's will through commands. That works in many centralized nations, including France. But from my viewpoint, the crucial thing is that China has a plan, a grand idea! Germany has a philosophy of consensus, but no fundamental idea about the direction in which it wants to develop. Germany is not developing a real industrial policy.

**AUDRETSCH** What do you think is missing?

**BROYER** For example, let's look at the process of digitalization. In Germany not enough is being invested in this area, because the responsibility for developing ideas is being left to the companies. That's a real weakness, because what's needed is public investment. At the European level as well, we need a kind of public investment, for example in the form of the Juncker plan and the European structural funds, in order to improve infrastructures all over Europe, especially in Germany.

**AUDRETSCH** All the same, we are observing greater dynamism, especially in the area of digital enterprises. At the end of the 1990s, many people considered Germany much too stolid, not only in its politics but also in its entrepreneurship. Back then, Joschka Fischer complained, “If Bill Gates had been a German, Microsoft →

would not exist.” But since the turn of the millennium, the times have changed. Today Germany has both: economic stability as well as flexibility and dynamism among its entrepreneurs. My thesis is that Germany has successfully overcome this lack of entrepreneurial spirit—and that it has done so by decentralizing its economic policy. It has developed focal points in its various regions, possibly at the expense of a centralized industrial policy. And that kind of centralization has in fact disappeared.

**BROYER** Mr. Audretsch, on that point I agree with you. The only example of a grand idea in the area of industrial policy that I can think of is the energy transition. But unfortunately, it too is not proceeding according to a well-developed long-term plan. It was developed as a result of the Fukushima crisis.

#### As non-Germans, what do you think of the German invention of the “energy transition”?

**BROYER** Here I’d like to differentiate between short-term and long-term effects. In the short term, the subsidies for renewable energies are causing enormous costs for electricity customers. These costs have increased by more than 20 percent in the past five years. I also think that the indirect costs of this reform include the fact that big energy companies such as RWE can no longer pay good dividends to their shareholders. In the long run, the energy transition is opening up new markets for German companies. Germany is now the leading producer of wind and solar energy. The only thing that’s now missing, in my opinion, is the medium-term perspective: How are such decisions affecting the existing business processes? I don’t see any overarching concept for answering this question.

**AUDRETSCH** Here’s an interesting thought: In general, Germany’s economic policy is regarded as being very risk-averse. But the decision to launch the energy transition was a very risky one, wasn’t it? Nobody was able to say where it would lead. But I see a positive short-term aspect. Through its phaseout of nuclear energy and its energy transition, Germany represents an environmentally friendly policy. Today this image is definitely a locational advantage, especially in the competition for the talents of the young generation. Young people from the so-called “creative class” want to live in healthy and environmentally friendly surroundings. For many young people, that’s the top priority. As a result, talented young people—what we call “human capital”—are happy to move to Germany.

#### When international companies invest in the USA, one of the reasons they give is that the energy costs there are very low. That’s a clear competitive disadvantage for Germany, isn’t it?

**AUDRETSCH** Yes, it certainly is. But just take a look at Silicon Valley. I’m always very impressed by it. Silicon Valley is one of the world’s most expensive locations, but that isn’t scaring off the companies and people in the digital industry. It’s true that there they have very high costs, but they also get a lot back! And that

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## “Germany’s economic policy is regarded as being very risk-averse”

DAVID B. AUDRETSCH

also applies to Germany as an industrial location. The energy costs there are very high, but in exchange German companies benefit from other advantages: the stability and, above all, the excellent workforce.

**BROYER** Rising prices for electricity would be a real problem for energy-intensive sectors such as the chemical industry. And as far as education is concerned, the German educational system for skilled workers is fantastic. However, Germany is only in the middle rankings of European countries when it comes to the number of

## “In Germany not enough is being invested in digitalization” SYLVAIN BROYER

school and university graduates in the MINT subjects. And the competition isn’t napping. Other G7 countries such as Canada and Japan are making huge efforts to incorporate younger generations into their aging societies, give them a better education, and strengthen their social bonds. Germany is certainly doing this better than other European countries. Italy has implemented a reform of its educational system, but it hasn’t achieved anything. In France, President Macron has yet to initiate his reform of the school system and the trainee system.



**Sylvain Broyer** (\*1971 in France) works in Frankfurt as the Head of Economics of Natixis, the investment bank of French savings banks and credit unions, which is one of the biggest bank groups in France. He is a member of the ECB Shadow Council of *Handelsblatt* magazine.

#### Germany has experienced a strong wave of immigration. What effect will this have on the country as an industrial location?

**AUDRETSCH** Immigration is like the World Cup in soccer...

#### ...We want to hear more about that!

**AUDRETSCH** No, no, I’m not making a comment about sports. I’m referring to the international competition in this regard. The best players are in demand all over the world. And in exactly the same way, today every location, every city, and every country has to struggle to attract the best minds to work there. This is a challenge for Germany too, but it applies to every country in the world.

#### But many people with fewer qualifications are also coming.

**AUDRETSCH** That’s true. But if Germany can’t solve this problem, what country can? Basically, no other country in the world can match its system of education and integration.

**BROYER** A high level of education is a key to future success. That’s especially true if an hour of work in German industry costs \$25 more than an hour of work in Korea. In Korea, the workers are also highly qualified, but currently they are campaigning for the introduction of a 52-hour week instead of the 68-hour week they have now.

#### Will the integration of immigrants into the workforce be successful in the medium term?

**BROYER** From a historical standpoint, all of the major growth phases of national economies all over the world were caused by demographics and immigration. What we’re seeing in Germany at the moment is the biggest wave of migration since the one caused by the war in the former Yugoslavia in 1992. At the moment, the integration of immigrants into the workforce is still too low. The likelihood that a refugee will find a job in Germany is 35 percent as a long-term average. Today, during this wave of immigration, it is less than 20 percent.

#### In spite of the immigration of young people, the average age of our population is constantly increasing. Does this development make you uneasy?

**BROYER** During periods when a population is aging, there are only two other opportunities besides immigration to safeguard the substance of the national economy. The first one is robotization. Germany is extremely progressive in this area, even though it isn’t doing so well in terms of digitalization in general. Incidentally, there’s a strong correlation between the average age of a country’s workforce and the number of robots being used in industry. Three countries lead the world in terms of the robotization of industry: Japan, South Korea, and Germany. These are exactly the three industrialized countries whose population is aging the fastest. →



Audretsch and Boyer met in the Electoral Palace in Koblenz

The second opportunity to safeguard the substance of a national economy is to keep older people working longer. However, this process works only once. Where should additional growth come from if all of the “silver workers” are still occupying all the jobs? That’s why educational policy and immigration policy simply belong together.

**Let’s talk about taxes—an important factor for industrial locations. US President Trump has created a new situation by radically reducing corporate taxes.**

**BROYER** President Trump isn’t the only one. And to a certain extent other countries will probably have to join in this taxation contest. I’m convinced that, at the latest, the next German government will put the topic of corporation taxes and municipal business taxes on its agenda.

**AUDRETSCH** Here too, you can justify a high level of taxes if this revenue is invested in the industrial location. Consequently, the crucial question is: Are the high tax revenues in Germany being invested in a strategically effective way? If the answer is yes, the level of taxation balances out.

**BROYER** Look, President Macron has already begun to reduce corporate taxes. Above all, he wants to significantly increase the tax incentives for venture capital. That too makes a lot of sense, because it counteracts the biggest problem we have at the moment: the low interest rate. This factor is often overlooked. Especially in an aging society, low interest rates mean that big companies have to significantly increase their payments into pension funds. That reduces their ability to invest, and that in turn reduces the capacity for innovation. The main reason for the tremendous growth of the current account surplus in Germany since 2007 thus really has nothing to do with the Germans’ low interest in

consumption. Instead, it’s due to the fact that German companies have to plow back their profits into payments on their pension obligations, because of the low interest rate. Mr. Audretsch, perhaps someone ought to explain that to Mr. Trump: If we want to reduce the current account surplus in Germany, we have to raise the interest rate. That’s all.

**In this connection, what role is played by the preservation of the euro zone?**

**BROYER** Germany is one of the countries that benefits most from the euro. If Germany were still using the Deutsche Mark, the exchange rate would be between 10 and 20 percent higher, and Germany’s export trade would therefore be more problematic. Moreover, the euro has strongly expanded Germany’s sales markets. And the euro is also important because it enables Europe to assert itself in a bipolar world that is dominated by the USA and China.

**AUDRETSCH** That’s certainly a huge advantage! Without the euro, Germany would have to change completely. I can’t even imagine the abolition of the euro.

**BROYER** US economists already predicted that when the euro was established.

**AUDRETSCH** That’s right, especially the most famous ones. But I have to admit that I was also unable to imagine that the UK would ever leave the EU.

**BROYER** In historical terms, the euro and the EU are not the first attempts to create a unified Europe. So far, all of these attempts have failed—after the Peace of Westphalia and after the Congress of Vienna. Unfortunately, the history of the continent of Europe is a simple one: We’ve got a bunch of small nations that beat other nations up in order to win supremacy over the continent. Sometimes it’s the British, sometimes the Germans, sometimes the French. And every time, an alliance of other nations forms in order to stop these bullies from becoming dominant. At the moment, Germany is dominating the continent within the euro zone.

**Let’s end this conversation by having you imagine yourselves in the role of Germany’s Minister of Finance. You are now allowed to invest €10 billion to strengthen Germany as an industrial location. Where will you invest this money? In the infrastructure? Or in digitalization?**

**BROYER** Neither one. I would invest the €10 billion in the stabilization of the euro zone. This is extremely important, and the consequences of a breakup of the euro zone would be very bad for Germany. The money should be used strategically for this purpose.

**AUDRETSCH** I agree. Germany has benefited tremendously from the euro zone, and it now has to deal considerably with its European partners in order to stabilize the euro. When the crisis with Greece broke out, most German politicians said, “The Greeks have to put their national budget in order.” It was a great mistake to leave the Greeks to do this alone. The EU is like a marriage, in good times and bad ones. That’s why Germany has to invest in Europe, in this partnership. —