

[Shouldn't we be more like Germany?](#) [1]

Written by [Tim Worstall](#) [2] | Saturday 9 March 2013

One of the standard tropes of British politics is that we are continually told that we should be more like Germany. It's pretty much a centre left idea, running that gamut from the Heseltines to the Huttons. Big government, big corporations and big unions will work together to plan and manage the economy. With a great deal of necessary guidance from the Heseltines and Huttons of course. It's a form of corporatism and perhaps the closest we actually came to it in the UK was under Wilson and Heath. But let us put that aside and consider what Germany actually did under that very system back over the past decade or so.

Around 2000 it was clear that Germany was becoming the "sick man of Europe". Labour costs were far too high for the productivity of that labour force. So what did this consensual management of the economy prescribe? That labour costs should fall. That's a pretty good answer to the problem of high labour costs of course. So, over the next decade pay rises for German labour were deliberately limited. By all sides: unions and companies and government. And the system worked. German labour costs fell with respect to productivity and German industry was saved. It didn't hurt that half the eurozone had rising labour costs at the same time but there was indeed this particular, and successful, plan to reduce the wages the workers were getting. Just hold on to that thought: this consensual and corporatist management of the economy decreed that labour costs must fall and then implemented the plan to produce that outcome.

Which brings us to the UK [economy today](#) [3]:

The TUC said that between 2007 and 2011 real wages fell by 4.5pc in the UK, higher than in countries such as Italy and Japan, while in Australia and Canada there were increases of 6.9pc and 5.4pc respectively. Most of the decline was in 2011 - the coalition Government's first full year in office, the research found. The TUC said the Government's austerity programme had made the squeeze on living standards even tighter by cutting tax credits and welfare support for low and middle-income families. TUC general secretary Frances O'Grady said: "While most countries have suffered periods of negative wage growth, no-one has witnessed such a marked decline as the UK. "This Government's blind obedience to self-defeating austerity has ensured that we are leading the way when it comes to the squeeze on living standards.

The British problem was indeed that wages were too high as compared with productivity. Real wages thus needed to fall: or at least, wages as compared to the value of output did. This has been achieved: it's one of the reasons the unemployment numbers are not vastly higher. As in Germany, instead of higher wages for those who remain in employment, we've seen real wages stutter or fall while unemployment has not skyrocketed as many predicted it would.

Which brings us to the point about how we cannot be like Germany. We've achieved the same result, lowering labour costs, but we've had to do it by a different method. For as you can see, the TUC, that voice of Big Labour, is complaining bitterly about that very outcome. The German unions agreed that wages should be limited: it is not possible to conceive of a polity in which the British unions would similarly agree. Thus that sort of corporatism, that sort of managerialist approach, to the UK economy simply will not work in the UK. For one of the necessary components just won't support the necessary actions.

Please do note: this is not to support the German style. Nor is it to support the Heseltine/Hutton axis that insists we'd all be better off if the Heseltine/Hutton axis determined things. It's simply to point out that even if it were desirable that we be ruled that way, it simply wouldn't work here. We simply cannot be more like Germany because we don't have German unions.

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[3] <http://www.telegraph.co.uk/finance/jobs/9915434/British-workers-real-wages-fall-by-4.5pc.html>

[4] http://disqus.com/?ref_noscript

[5] <http://disqus.com>