

The logo for the American Council on Germany (ACG) is displayed in a bold, sans-serif font. To the right of the logo is a stylized globe graphic with latitude and longitude lines. The entire header is set against a light olive-green background.

ACG

THE AMERICAN COUNCIL ON GERMANY

2009 McCLOY FELLOWSHIP IN JOURNALISM

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"Perspectives on Change and Crisis in the German Economy"

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Final Report

Introduction

I traveled to Germany on a 2009 McCloy Fellowship with one central question in mind. I cover Wall Street and the US economy for public radio's daily business show *Marketplace*, and had been immersed in the near-collapse of our financial system. I wanted to see how Germans were experiencing and responding to this same global meltdown.

The timing of my trip presented another opportunity, though. I would be in Berlin on the twentieth anniversary of the fall of the Berlin Wall. This invited a look at whether reunification had been successful economically. In the context of the recession that Europe's largest economy was still pulling out of, I wanted to see how the eastern and western experience differed. What I learned surprised me. In some ways eastern Germany had fared better in this recession *because* unification had not been entirely successful.

I set about reporting several stories exploring these themes. What follows are some of my conclusions, adapted from the radio stories I produced.

Leipzig

The city of Leipzig is in many ways emblematic of the success and challenges of German reunification. A historic center for the arts and culture, and a hub of protest leading up to the events of 1989, Leipzig has in many ways been a success story. But the city is still plagued by high unemployment, and many of its young people leave the city to find work in western Germany. On the eve of the anniversary of the fall of the Berlin Wall, I visited Leipzig to see how it was faring twenty years later.

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Twenty years ago, Leipzig was an industrial center, polluted by coal mining and chemical plants. "Decayed, soot-covered, evil-smelling," is how Hinrich Lehmann-Grube described it. He arrived in the city almost two decades ago from Hannover, to serve as Leipzig's first post-reunification mayor. He found a city where roads and buildings were crumbling from decades of neglect. But before World War II, Leipzig had been one of Germany's wealthiest cities, and an arts and culture powerhouse.

"And if you looked closely, you could still see that," he said over coffee in his sunlit living room recently. "Like somebody who looks at an old garden where many winters have gone over, but you can see how it was meant to be. And this attracted me."

It attracted others, too. In 1991 Chris Smith arrived from Frankfurt to set up a new branch of the consulting firm then called Price Waterhouse. "It was a very get-up-and-go time," he said. He would tell friends, if they wanted a tennis court, to build it themselves. "If you want it to get done, don't look to anybody else to do it," he recalled saying. "You're here to do it yourself."

That spirit -- and money from the West -- helped rebuild Leipzig. Today, Smith heads an office of more than 100 employees in a thriving modern city, with a lively arts scene and growing population. But reunification also opened the region to competition from companies in western Germany. One hundred thousand mining and other jobs disappeared. And unemployment in Leipzig is still twice as high as in many western cities.

One economic bright spot is the ultramodern BMW plant on the outskirts of town. It opened five years ago. One afternoon BMW spokesman Michael Janssen led me through the welding area. Sparks flew as the frame of a 1 Series hatchback took shape. Though most of the work seemed to be carried out by orange robotic arms, Janssen said the plant has created some 5,000 jobs.

"When we came here, the unemployment rate was more than 21 percent, which was quite bad for the region," he said. "But it was good for us because we could choose really skilled people, and they were available." They were cheaper, too. Janssen said workers in Leipzig earn about 25-percent less than their counterparts in BMW's home base of Bavaria.

Lower wages in eastern Germany are supposed to keep the region competitive, according to Jochen Staadt of Berlin's Free University. He said that seemed fair, when the cost of living was also much lower. "But nowadays, when you go shopping, you pay the same prices," Staadt said. "And the people say, 'When we pay the same prices, why don't we earn for the same work the same amount of money?'"

This is one reason many in eastern Germany say they were better off in the old days. That nostalgia shows up in support for the Left, the successor to the Communist Party.

At the main train station in Leipzig, Katrin Dost served bratwurst to travelers at a small sausage stand. She has a job. But she said she understands why some people long for the days of the communist German Democratic Republic. "Because all people in the GDR had work," she said. "And now a lot of people have no work. We have fear for the future. Have I next year this job?"

Officials in Leipzig are working to attract new industries, like green technology. And one economist told me in some ways the region's weakness has actually helped it ride out the global recession. Companies aren't as dependent on exports as those in western Germany, where unemployment has actually risen faster.

Reviving the Trabant

One sign of reunification's mixed success is nostalgia for old communist brands. From Vita Cola to Minol oil, there have been several recent efforts to revive products from the GDR. But in one case -- in keeping with Germany's push for a green economy -- there's an eco-twist.

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On a rainy day in November, Berlin's DDR Museum was packed with tourists looking for a taste of the former East Germany. In one corner, historian Stefan Wolle showed me a vintage car. As he knocked on its surface, it made a hollow thud. "It's all plastic," he said. "Only plastic."

The car was a Trabant. During communist rule, it was the cheapest and most popular East German car. Not only was the Trabi -- as it was called -- made of plastic. It was cramped, spewed dirty exhaust, and broke down frequently. But Wolle said it was beloved by East Germans, who often had to wait to 10 to 15 years to get one. When they finally did, he said the car was like a part of the family -- "like a cat or a dog."

After the Wall fell, East Germans could buy any car they wanted. Demand for the Trabi evaporated. But maybe not forever. Today Herpa, a company that normally makes model cars and planes, hopes to revive the old affection. It's teamed up with manufacturer IndiKar to bring back the Trabi -- this time as an electric car.

On a crisp fall morning in Wilkau-Haßlau -- south of the Trabant's original home of Zwickau -- IndiKar CEO Ronald Gerschewski showed me the prototype he debuted at the Frankfurt auto show this fall. A shiny powder blue, it looked a bit like a longer version of another retro car -- Britain's Mini. As Gerschewski showed me the car's many modern-looking features, I accidentally pulled a piece of plastic paneling off the inside of the door. It is just a prototype, he reminded me.

Gerschewski predicted a sturdier version will hit the roads in the next three years or so. He's looking for investors and a partner to mass-produce the car. He said most of the interest has come from outside Germany. "We have learned that the Trabant is a symbol of the German reunion," he said. "It's a very positive symbol and it's well known all over the world."

In Germany, nostalgia has revived demand for some old communist brands. But in the wider world, retro cars like the new VW Beetle and the PT Cruiser have failed to catch on. Without an experienced carmaker backing the new Trabant, one analyst told me the "flop risk" is very high.

While some still pine for the old brands of communism, others are still adapting to the capitalist system. I wanted to know how people who grew up in the GDR learned a new way of life that in many ways was less stable than the one they had known. While most people I talked to would agree that reunification had been good for Germany, some had struggled personally with the arrival of capitalism.

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In her office at School Museum in Leipzig, Elke Urban thumbed through a German-English dictionary. She was looking for a word in English. "Schizophrenia," she finally declared.

Urban was talking about her life under the German Democratic Republic. Her job had been to teach the French language to schoolchildren. But having grown up under the authoritarian regime, she had never been to France. She was forbidden to travel. It was a kind of schizophrenia, she said. "I had to convince my pupils this is a wonderful culture, this is a wonderful language, but you have no chance to visit the land," Urban said. "There were sometimes I thought 'I cannot do it any longer.'"

In a way, Urban got lucky. She wasn't a member of the Communist Party, and her career suffered as a result. After her third child was born, the school didn't invite her back to teach. She was able to forget about the French culture she so longed to see, and focus on raising her family.

Then, in the late 1980s, as discontent with the regime grew, Urban joined the peaceful demonstrations taking place at Leipzig's St. Nikolai church. The Monday Demonstrations, as they became known, inspired similar protests across eastern Germany, and helped spark the revolution that ultimately toppled the Berlin Wall.

It was only then that Urban had a second shot at a professional career. She had long dreamed of founding her own school, and she was invited by the new city government to do just that. In the end, she helped found several schools in town, and now directs the School Museum. A current exhibit compares elements of education under the GDR with that of Nazi schools.

Urban finally visited France. After 1989, she and her husband spent six days in Paris. "The reality was so much more interesting and so beautiful than my visions were before," she said. It took a few days before she could speak any French, but then she had a dream and said the language came pouring back.

"For me it was a good chance, a good beginning," Urban said of the end of communist rule. "But maybe for a lot of people it was too difficult to have no preparation for liberty, for freedom."

In Berlin, Pura Kauf was unprepared for the arrival of capitalism. She was raised by staunch communist parents, and had grown up believing that the free enterprise system was evil. “For me capitalism was the system that waged wars, where people were homeless, where people didn’t have work, where people were poor and miserable,” she said through a translator.

When the borders opened and western goods flooded the market, Kauf remembered feeling overwhelmed by all the choice. “Why did one need twenty different types of mustard, or the choice of twenty different types of toothpaste?” she recalled asking.

Yet Kauf herself hadn’t succeeded under communism. She had wanted to be an artist, but could not get into art school. She believed it was because of her politics. So when the regime collapsed, she, too, found that her career blossomed. For the past 18 years, she has worked at a center for children, teaching art.

Kauf has had run-ins with the financial insecurity that came with capitalism. Her first foray into the stock market ended badly, when her boyfriend made some bad investments that cost her nearly all of her savings. And now the City of Berlin is heavily in debt and may have to close the arts center where she works.

“I really don’t believe that anything is secure,” she said. “I lost the East German marks and then later the Deutsche Mark, and a lot of people died around me, so that was not secure either, and so I have the feeling that nothing in life is really secure.”

Perhaps because she endured all that, Kauf said she was not worried about the future. “I think things will come together somehow,” she said.

Kurzarbeit

One of the most striking differences between the US and German economies is the attitude toward work. In Germany, labor has a strong voice within corporations, and the government provides ample benefits for the unemployed. In the United States, as one source put it, we have a “hire and fire” mentality. When companies run into hard times, you’re out of a job. And unemployment benefits are comparatively slim.

This difference in mentality shows up in the numbers. While the US unemployment rate has topped ten percent during this recession, Germany has kept its rate at about 8 percent. One reason is a government program designed to protect jobs.

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At the MAN truck assembly plant in Munich, workers attached wheels onto an axle. An electronic sign overhead told them how many trucks they had to build that day. Union official Klaus Brinnig said that number has changed in the last year. “In normal time, we have 160 trucks,” he said. “And now, 47.”

Workers were building fewer trucks because demand had dropped in half in 2009. But MAN said it hadn't had to lay off a single member of its permanent staff. That's because it's signed up for a government program called *kurzarbeit*, or short-time work. Workers take a cut in their hours and their pay. The German government reimburses them for a portion of their lost wages.

MAN spokesman Dominique Nadelhofer said employees may work as little as half time. But they still make 90 percent of their salaries. "For us it's a good tool to keep them on the payroll to have them on board," he said. "If the demand picks up again, then we don't have to hire new people."

Hiring new people costs money. In the coming years, Germany is expected to face a severe shortage of skilled workers, so companies like MAN want to hold onto the staff they have. Nadelhofer said the workers get to keep their jobs and have some free time for training or hobbies. He gave one example of an employee who raises parrots. "He told me that he has more than 50 parrots," Nadelhofer said. "Now he has more time to spend with his parrots."

Kurzarbeit has given an estimated one-and-a-half million German workers more time for their hobbies. Economists say it's also saved hundreds of thousands of jobs. It hasn't been cheap. The government paid out an estimated \$16 billion in 2009. Economist Stefan Schneider with Deutsche Bank said it makes sense. "The argument is, and I think that's the correct one, that if these people were unemployed, it would be even more expensive for the government," he said.

Analysts say *kurzarbeit* is one reason consumer spending in Germany has held up. But it's not clear how long the government can prop up the labor market. Right now companies can tap the program for up to two years, though there's some talk of extending it if the economy doesn't bounce back quickly.

Some economists worry *kurzarbeit* may just postpone the inevitable, by keeping manufacturers from making some hard choices. "If production is scaled down so sharply, as we have recently experienced, there must be some restructuring in the economy," said Eckart Tuchtfeld with Commerzbank. Restructuring means layoffs. As economic reality sets in, analysts expect unemployment to rise in Germany to 9 or 10 percent this year.

The MAN factory was in full swing on the day I visited. But worker Klaus Brinnig said a few days a week it's a ghost town. He said he's enjoyed the four or five days a month he's had off from work. But he said he and others are starting to worry. "In the beginning the people say 'OK, it's fine. We have time for family, time for the mountains, time for the beer garden,'" he said. "But now, it's a long time. And the people think '*was passiert* in future?'" What happens in the future?

After last fall's elections, Germany has a new government. Brinnig said the more conservative coalition now in power isn't as friendly to labor, and there may be some pressure to end programs like *kurzarbeit*.

German Pay

In some ways, the financial crisis is already a distant memory. Many banks have returned to making huge profits, and paying out huge bonuses. That's fueled a backlash across the globe. Shortly after I returned from Germany, the British and French governments decided to impose a 50% tax on large bonuses. Germany opted not to follow suit, but banker compensation – and executive pay in general – were hot topics during my stay. I visited Frankfurt to check out the mood in Germany's financial capital.

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In the cafeteria at the Frankfurt School of Finance and Management, future bankers sipped coffee as they did their homework. People in this industry have been slammed in the past couple of years for making handsome salaries, even as they lost billions of dollars on risky investments. Student Christian Marx works part-time at Deutsche Bank. He still wants a career in banking. But, he said, a lot of his friends from school have had second thoughts. "After graduation they changed or moved to companies in, for example, the electricity business, oil industry, and did something else," Marx said.

For one thing, they may not be able to make as much money in banking in the future. Public outrage has prompted lawmakers to limit executive pay. Faced with the threat of more serious restrictions, Germany's largest banks and insurers have volunteered to make their own changes.

Hartmut Kliemt teaches business ethics at the Frankfurt School. He said Germans are even more offended by excessive salaries than Americans are. "That's presumably the German tradition of communitarianism in a way, feeling like a group rather than an assembly of individuals," he said. "It's 'us,' not 'me and you and Mr. X.'"

But as financial firms return to big profits, Tim Zühlke predicted the coming bonus season will be better than last year. He recruits bankers and traders at Indigo Headhunters.

Zühlke guessed bonuses will be up 30-40 percent on average, partly because many people received no bonuses last year. But, he said, unlike their counterparts in New York and London, Frankfurt financial types don't flaunt their wealth. "That's exactly the German way," he said. "You buy the car, keep it in the garage, and you drive it on a summer day somewhere on the outskirts, but you definitely don't go to town with the Ferrari."

Still, there was money in the air on a recent evening in Frankfurt's financial district. Outside the Bull and Bear, a bar around the corner from the stock exchange, I found a group of young expats drinking beer under heat lamps.

"It's standard Friday night, 'cause we work across the road," said 22-year-old Christopher Brennan. "We come over after work, have a few beers. It's a bit more upper class, isn't it? Not that we're posh."

Brennan came over from Ireland a few months ago to work as a financial adviser -- basically a salesman -- at an offshore investment firm. He said he hadn't noticed any resentment towards his type.

"The entire city is built on economics," he said. "It's all built on money, it's all built on finance. So if you're part of that, you're part of the city. You're part of the reason the city ticks, is how people look at you."

With the markets up lately, Brennan and his friend James Kennerdale were feeling pretty optimistic about their own paychecks. "There's quite a lot in the burner, which should make for a white Christmas," Brennan said.

"Even with the financial crisis, at 22, it's more money you can make than you ever thought you could have," said Kennerdale. "Coming from a single-parent family to coming out here to earning this kind of money, it's exciting. I think we'll do all right, won't we?"

In a good week, Kennerdale said he can take home as much \$3,000. But he knew that was nothing compared to what guys like him were making a few years ago.

Conclusion

As I left Germany in late November, Europe's largest economy seemed well on its way to economic recovery. Business confidence had improved, gross domestic product was growing, and demand for German-made goods was picking up. A few months later, the picture has darkened. The economy contracted five percent in 2009, the worst recession in the post-war era. Business confidence has declined, and economists are now predicting a muted recovery. Efforts to stimulate the economy have led the German government to take on record debt. "It will be a long, rocky road," Economics Minister Rainer Bruederle said recently.

And so, the crisis that began outside Germany's borders, with the US housing bubble, is far from over. Its effects will continue to be felt for years to come. And I will be watching with a new appreciation for the interconnectedness of our economies.

