

A decorative graphic consisting of a grid of grey dots of varying sizes, with several dots highlighted in red. The dots are arranged in a pattern that roughly outlines the shape of Germany.

# An Industrial Policy for Social Democracy

## Cornerstones of an Agenda for Germany

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- An industrial policy that is based on social democratic values has to be committed to both economic prosperity and social welfare of people. Therefore, it has to combine a powerful, competitive economy to generate growth and material prosperity with a system of fair wealth distribution and environmental protection.
- The industrial policy for social democracy has to adjust to changing market conditions as well as ensure Germany's international competitiveness. In addition, 'green' production and consumption patterns have to be adopted in order to avoid excessive burdens on the natural environment and to establish competitive advantages in 'green' markets.
- Social democracy's industrial policy must call for higher wages as these are the key to adequate participation of all people in the fruits of economic performance. Higher wages would also breathe life into domestic markets.
- The change towards an economy in line with social democratic industrial policies must proceed without abandoning any so called 'losers of modernisation'.

## 1. At a Glance

An industrial policy for social democracy must serve both economic and social policy goals. It must ensure that Germany remains well positioned in lucrative markets. It must aim at a mode of production which is environmentally sustainable and does not 'colonise' people's lives. It must strive to drain the low wage pool in the labour market. Structural change should be promoted, not hindered – however, it must be tempered in accordance with the set of goals laid out here.

Social democracy is shorthand for a society,

- (i) whose members shape their common living conditions in a democratic way,
- (ii) which affords all its members a decent share in their country's prosperity and cares for those in need and
- (iii) which leaves its members maximum freedom to shape their own lives and provides ample opportunity to develop their potential.

A society which is 'social democratic«' in this sense, however, also responds to the desire of its members for material prosperity and thus is geared towards strong economic performance. The notion of industrial location points to the fact that this performance must prove itself in contested international markets. It is important that the goods and services produced in Germany are sold in the major growth markets both at home and abroad, allowing for high wages. Competitive companies should set up or extend production in Germany. International competitiveness understood like this goes along with the creation of jobs and high incomes, not only in the competitive industries themselves, but also in areas which are not exposed to international competition. Competitiveness is not about export surpluses, it forms the economic foundation of our prosperity.

## 2. The Goal: a High-Performance Economy for People

But competitiveness should be more, it should also form the economic foundation of social democracy. We could say: what is good for our prosperity is also good for social democracy. However, things are not quite that simple. For a start, we generally measure prosperity in terms of

an indicator – GDP – which leaves out key aspects of social and individual welfare. Furthermore, the way of doing business which creates and increases this prosperity threatens – if allowed to follow its own propensities – to sweep aside crucial human and societal concerns. Additional indicators are called for here, although they must not be allowed to jeopardise the country's competitiveness.

One aspect typically neglected by the market is the long-term safeguarding of the natural resource base. Although this safeguarding is an economic imperative as well it is one to which markets tend to turn a blind eye as long as the resources to be protected are not marketable, i.e. as long as they are freely available, with no property rights attached to them.

Altogether, four major tasks arise for an industrial policy at the service of social democracy:

- (i) It must take care of the country's international competitiveness.
- (ii) It must ensure that production in Germany does not endanger our natural resource base.
- (iii) It must make sure that the performance of the German economy benefits all inhabitants.
- (iv) It must avoid that economic performance is at the expense of people's quality of life.

## 3. Policy for a Competitive Germany

In order to ensure over the long term the market success of products – goods and services – made in Germany and thus to guarantee ever increasing real incomes there must be timely adjustment to ever changing market conditions. Development and innovations elsewhere must be taken into account. Products must be developed for future growth markets, maintaining the lead over low-wage countries in terms of productivity and product quality. Competitive companies must be tied to Germany as an industrial location.

Government has the task of furnishing conditions for the economy which favour all of this – infrastructure, human capital, basic knowledge accessible for business, occasionally even initial subsidies. It must take care that investment and innovation are not blocked. Furthermore, government can promote debates on industrial

developments in the country, thereby providing strategic orientation and momentum for business initiatives as well as revealing potential for cross-company synergies. Although governments are not able to recognise future market opportunities better than companies tried and tested in the market, a joint debate in pursuit of an appropriate solution is often more effective than microeconomic 'trial and error'. In addition, government can promote investment and innovation by setting priorities and backing them up with appropriate rules (for example, prioritising rail transport, IT-assisted learning in schools, traffic guidance systems or performance requirements for products and processes which anticipate future market standards).

#### 4. Policy for Ecologically Sustainable Production in Germany

If excessive – because unsustainable or simply dangerous – burdens on the natural environment are to be avoided, sooner or later different production and consumption patterns must be adopted. Germany's 'environmental industrial policy' has laid down the goal of bringing about this transformation early on, with the supplementary aim of establishing new competitive advantages in future 'green' markets. The main levers to change the behaviour of producers and consumers are, on the one hand, state regulation and, on the other, price signals. However, this involves walking an industrial-policy tightrope. Environmentally responsible production leads directly to competitive disadvantages if other locations do not follow suit. On top of this there is the risk of 'backing the wrong horse' if the envisaged 'green' markets of the future do not materialise, if the world market gives priority not to those technologies that are being promoted at considerable expense, but to different ones, such as for instance nuclear power. But this risk must be set against the risk of getting into the markets of the future too late due to the absence of a supporting industrial policy.

Surely, the scope for a purely national 'green' industrial policy is limited as long as competitors in other countries are prepared to engage in an environmentally irresponsible race to the bottom. Effective protection of global climate cannot be achieved without an internationally coordinated reorganisation of production and consumption. In

the absence of that, the environmental efforts of a particular country heroically shouldering competitive disadvantages would be undermined by the competition.

In the meantime, however, it would certainly not be a mistake to force the pace with regard to increasing energy and, in general, resource efficiency with a combination of carrots and sticks. Technological developments must be advanced which, over the long term, are bound to create competitive advantages because, first, (energy) resources will become more expensive and, second, expenditure on resource saving will fall in the course of technological learning processes. Regardless of what future energy sources will be, using them economically will be an important part of environmentally sustainable production.

#### 5. A Policy of Prosperity for All

The key to the adequate participation of all inhabitants in the fruits of economic performance is not state redistribution and social security systems, it is a labour market which makes possible a wage income close to the national average for all those willing to work. Education and labour market policy are important means for achieving this. However, the structure of production is also concerned.

To start with, a policy aimed solely at the country's competitiveness runs the risk of neglecting production for the internationally uncontested segments of the domestic market as a source of wage income and economic growth. A policy aiming at social democracy must endeavour to breathe life into the domestic market instead of relying on other states to do this with their domestic markets. A key here are higher wages, which would have to be fought for in the labour market and supported by government, in the form of minimum wages, redistribution of the tax burden and promotion of trade union organisation.

The enormous expansion of the low-wage sector in the German labour market is closely connected to the fact that the fall in manufacturing employment in the wake of market saturation and continuously increasing productivity was not accompanied by a simultaneous expansion of services. This way, a labour surplus emerged, driving down wages and favouring activities that

depend on low wages. If this development cannot be corrected, structural change towards a service economy threatens to further polarise the labour market. Opting to promote manufacturing instead would be misguided, however, because in Germany it is as strong as an ox in any case. The issue is rather one of more growth outside the manufacturing sector, which could drain the low-wage reservoir.

A policy aimed at this must favour production processes which rely on a well trained workforce, operating relatively independently, and not processes that stipulate a dualistic structure of high-skill controlling and low-skill implementing jobs. Here again, training and further training constitute a key instrument. But it is not sufficient. The elimination of the low-wage option is a decisive factor for the return to a production structure that facilitates prosperity for all.

## 6. A Policy that Puts Production at the Service of People

People's desires and preferences are only partly reflected by their demand in markets. For one thing, the market honours only demand that is underpinned by purchasing power, thus giving priority to the preferences of the rich. This is a question of income distribution. Moreover, for important aspects of quality of life there are no functioning markets. These aspects concern primarily working life which decisively determines how much time people have at their disposal, how much they suffer from stress and what opportunities they have to plan and live a life. Here, labour markets frequently offer only limited choice ('take it or leave it!'). It is true that in Germany the subordination of people's lives to the (apparent) efficiency and flexibility demands of the economy is less glaring than in many other countries. However, it has increased significantly. Extracting from the economy more concessions (again) to non-market life is an important political task to enhance social democracy.

Concessions of this kind presuppose a certain renunciation of material output and thus of monetary income. This renunciation would have to be tailored to people's preferences without jeopardising Germany's competitiveness. At the same time, production must be organised in such a way that work life and non-market life become more compatible. Here, too, government

initiatives are needed (guidelines, incentives, opening up a debate).

## 7. Structural Change must be Guided

A structural policy which seeks to ensure a future may not be led astray into defending production structures on which many jobs depend at present, but which in the long term cannot be saved or which no longer have a place in an environmentally-friendly economy. On the other hand, a society based on solidarity cannot simply abandon the persons affected – the so-called 'losers of modernisation' – to structural change unprotected. People can be expected to adapt (there is no other option), but they should also be enabled to cope with this adaptation without traumatic social degradation. If necessary, transitional periods should be instituted, although without succumbing to the temptation to sweep the problem under the carpet (for example, in view of pending elections). Better than playing for time is forward-looking human resource management which anticipates unavoidable or desirable structural change as far in advance as possible and to that end seeks to bring workforce and available jobs into line ('save the workers, not the jobs'). Further training is indispensable for this purpose, although a kind of market-oriented guidance system is also needed which combines early warning with supply functions, of the kind which exists in, for example, Sweden.

## 8. The Ambivalent Primacy of Competitiveness

Inherent in social democracy is the notion that the economy is for the benefit of people. From this perspective, the aim ultimately is not to make Germany as competitive and productive as possible, but as people-friendly as possible in terms of the set of goals laid out here. Economic productivity is a means to this end.

On the other hand, economic strength as put to the proof in internationally contested markets is key to achieving meta-economic goals. The latter, one might say, refer to the kind of society we want for the competitive country. No one who desires social democracy may neglect competitiveness. As soon as it comes under threat everything else takes second place. Only sustained economic success provides the comprehensive



political support required for the shaping of society in line with the criteria of a social democracy. The constant, forward-looking modernisation of Germany as an industrial location is not an end in itself, but it is an indispensable condition. Any attempt to pursue other aspects of the set of goals at the expense of the economy – for example, by protecting jobs that are no longer competitive – is likely to founder.

Still, the whole ensemble of goals must be part of the overall strategy from the very beginning. Caring for competitiveness first and then taking care of ‘luxury’ items such as quality of life etc. is not an advisable option. It entails the danger that the social democratic ‘luxury’ will be sacrificed to a purely economic concept of industrial policy. The social democratic agenda is bound to be ambitious: it cannot settle for results that other agendas can very well settle for.



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The **FES London Office** is part of the international network of the Friedrich-Ebert-Stiftung. It was established in 1988 to deepen the British-German dialogue of civil society actors and political decision-makers.

A particular focus of the office is the so called Good Society Project, which elaborates on the principles, values and politics we need to establish in order to achieve a Good Society. Another important objective of the London FES office is to facilitate the exchange of opinions between representatives of the trade unions from both countries.

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