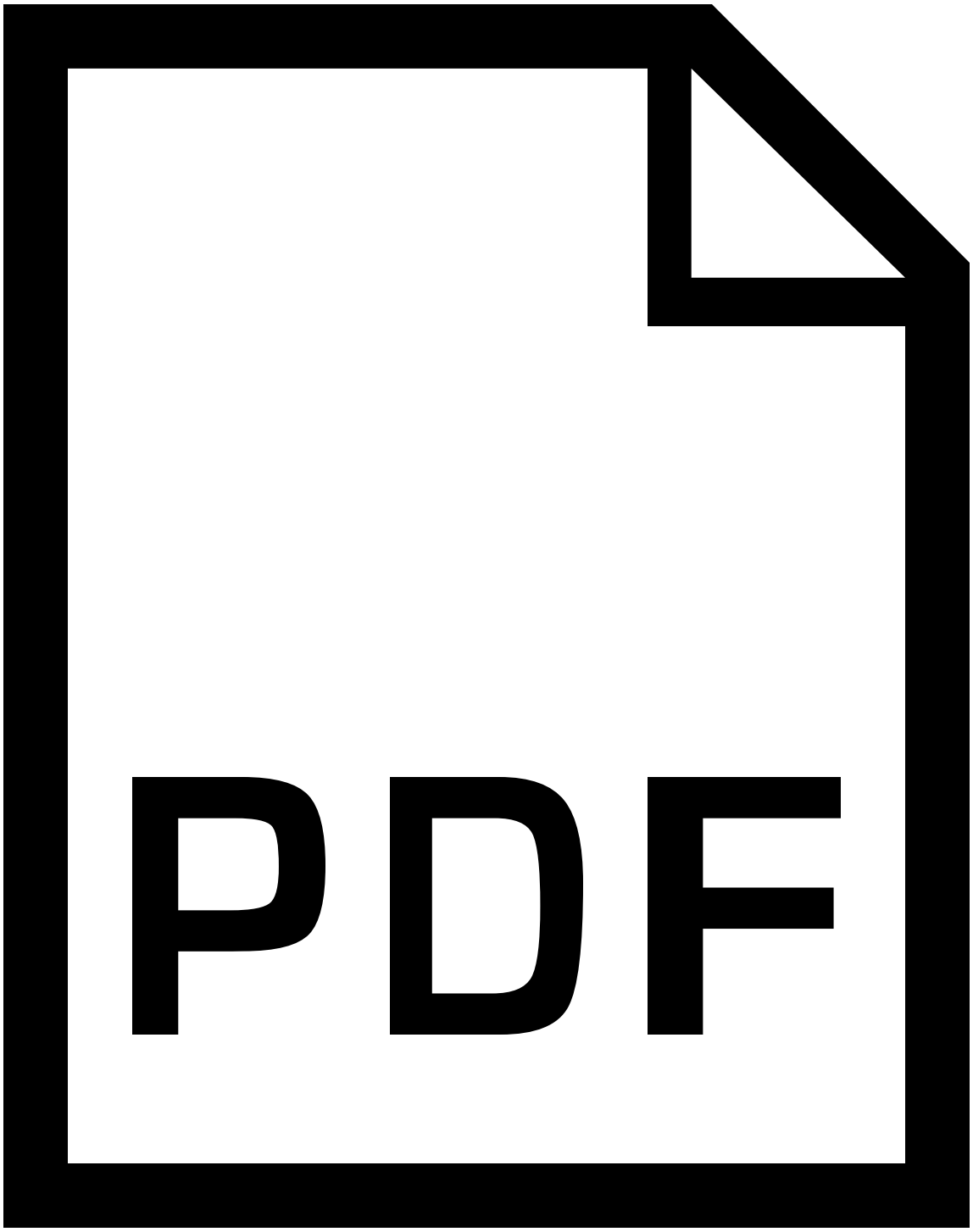
News Item, 23/04/2010, Washington D.C./Gütersloh: Social market economy helps Germany overcome crisis

International study compares how governments in NICs and industrial states responded to crisis -- NICs prove less affected than developed nations -- Lack of coordinated response on global level



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Sabine Donner

Thanks to its social market economy, Germany has emerged relatively less scathed by the global financial and economic crisis of 2008/2009 than other countries. The country's social safety net had a stabilizing effect, helping dampen the impact of the crisis. Those are the findings from an international study carried out by the Bertelsmann Stiftung on crisis management in 14 countries around the globe. As the study also shows, most newly industrialized countries (NICs) outperformed both Germany and other industrial nations in responding to the crisis, since they were better prepared after having undergone past upheavals.

According to the study, Germany's government -- compared, for example, to crisis-management measures in the United Kingdom and United States -- only made use of public-sector interventions later in the crisis, relying initially on social-assistance programs and other existing measures. And while Germans were at first dissatisfied with the government's response, public support increased over time. "You could say that Germany's social market economy and its social-assistance programs in particular helped cushion the impact of the crisis," said Dr. Gunter Thielen, chairman and CEO of the Bertelsmann Stiftung.

Innovations such as flexible work schedules and having employees work fewer hours each week were already in place when the crisis hit and only required minor adjustments, something that automatically helped stabilize the situation and that was a clear advantage compared to the situation in other countries. Germany's programs can thus be considered a prime example of how to respond to such dislocations. "Other countries have repeatedly discussed to what extent adopting such measures makes sense as a way of lessening an economic downturn's immediate impact," Thielen said.

NICs proved to be the most successful in dealing with the crisis. The study shows how these countries, also known as emerging markets, learned from previous downturns such as the Asian crisis of 1997/1998, which led them to streamline budgets and implement financial and banking reforms. Their robust financial situation then provided their governments with the freedom to pass stimulus packages in 2008 without adding excessive levels of public debt. Subject to higher levels of regulation, the NICs' financial markets were generally more resistant to shocks, while their banks had many fewer toxic investments.

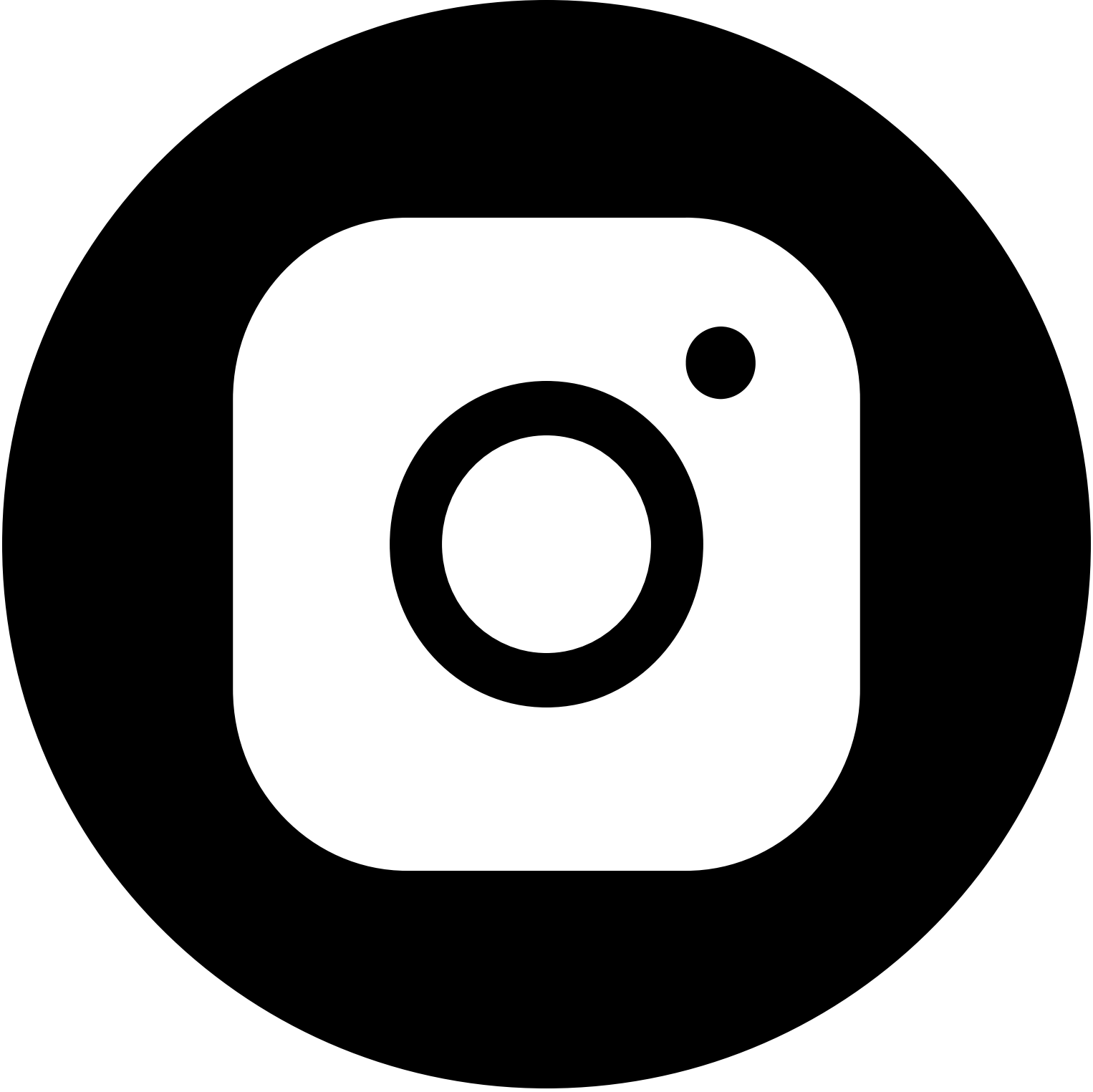
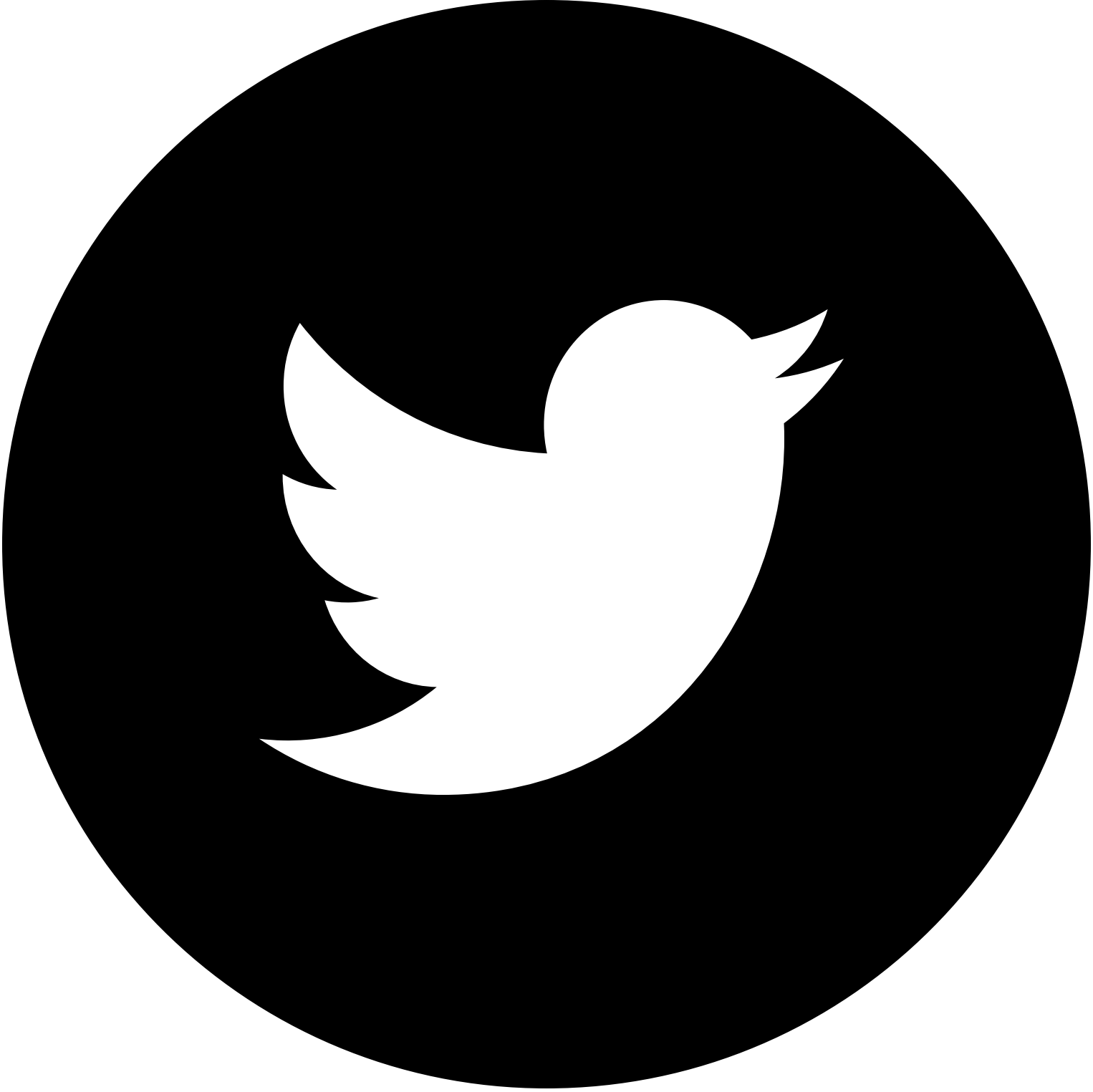
"As a result, emerging markets enjoyed a strategic competitive edge compared to their international peers," explains Sabine Donner, project manager at the Bertelsmann Stiftung. In the second year after the financial and economic crash, up-and-coming countries such as China, India and Brazil are the ones currently driving the global economy, distinguishing themselves from their industrialized Western counterparts though robust growth rates, low levels of debt, rising domestic demand and stable financial markets and institutions. The impact of the crisis thus highlights the rise of key NICs and the relative decline of Western states.

The analysis of national and international responses to the crisis revealed a number of commonalities. Although there were vast differences in how individual countries initially perceived the crisis and its concrete impact on national economies, never before has the response to a global recession been faster, more direct or more comprehensive. As soon as the potentially disastrous ramifications of the crisis became clear, resistance evaporated in all countries to implementing short-term responses and fiscal stimulation. During the first phase of the crisis examined by the study (September 2008 to September 2009), countries thus focused on national crisis-management measures.

As a result, governments willing to deal with the situation came into power and measures for responding to the situation were implemented with little resistance. Both industrialized countries and emerging markets used stimulus packages and programs designed to maintain stability as their main tools for overcoming fallout in the short term, even if few governments managed during this phase to use the crisis to adopt long-term policies. Only in rare cases such as South Korea, China and the United States did leaders include forward-looking investments in future technologies, education, research and climate protection in their initial economic packages.

In terms of the many calls for more international coordination, the study reaches a sobering conclusion. "Instead of responding to this first-time situation of a global crisis emanating from Western industrialized nations with an increase in global governance, national-level responses largely emphasized crisis management and stimulus packages," says Dr. Hauke Hartmann, project manager at the Bertelsmann Stiftung. According to the study, the most effective and most inclusive international coordination took place directly following the start of the crisis among central banks and financial authorities. Government leaders used the G-20 summit, for example, solely as a platform for disseminating information and facilitating an exchange on their national responses -- not to agree to a concerted, coordinated response.

About the study "Managing the Crisis. A Comparative Analysis of Economic Governance in 14 Countries"

The study is based on detailed country reports documenting policymaking responses to the global financial and economic crisis in 14 nations, both developed economies (Germany, Sweden, the UK and the US) and emerging markets (Brazil, Chile, China, India, Indonesia, Russia, South Africa, South Korean, Turkey and Hungary). It focuses on the countries' ability to formulate policymaking responses and the effectiveness of their mechanisms -- from agenda stetting and the identification of core issues addressed by stabilization and stimulus programs to the programs' subsequent implementation -- during the first phase and up to the climax of the crisis in 2008/2009. The study provides a detailed summary of events during this time, revealing the similarities and differences among the various measures adopted by the 14 countries. It focuses in particular on a comparison of developed and emerging economies. The study was carried out in cooperation with Prof. Sebastian Heilmann, professor of Political Science at the University of Trier, and Prof. Rolf J. Langhammer, vice-president of the Kiel Institute for the World Economy.

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