

Four Questions for the Future Chancellor

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Article published in *Internationale Politik*,
August 2005

Elections, particularly in times of economic hardship, tend to focus on domestic issues. The major German party manifestoes demonstrate this all too clearly. Given that the scapegoating for high German unemployment of international capital or of cheap labor from the East is largely absent from these documents, we could be grateful that they largely ignore globalization and leave it at that.

The German electorate, however, deserves to hear an open debate between the candidates for Kanzler on how they will respond to globalization and its effects on the German economy and global politics. While the biggest determinant of German economic performance—and thus of Germany's global role—will indeed be the management of structural reform at home, Germany's response to international economic integration is critical as well. Even ducking the issue will have large implications.

In particular, the questions that the candidates and parties have to answer concern Germany's willingness to treat globalization as more than a background threat. As I have argued in this journal, Germany has opportunities for serving its self-interest through global economic leadership—and Germany also runs risks of reinforcing its economic decline by treating Europe as a means of protectionism.¹ There is a choice to be made. Of course, such a choice is not a once and for all decision in the abstract. The treatment of globalization by the next government will reflect the accumulation of specific policy stands.

German voters could get a sense of, and preferably a commitment to, how the next government would approach globalization by having the parties address four questions:

1. How does the ownership of German-based companies affect the public interest?
2. How should Germany treat workers from abroad?
3. How should German wealth be utilized to aid the developing world, if at all?
4. Is the economic rise of China a reason for cooperation or competition with the United States?

These issues stand at the nexus of German domestic economic performance and global economic trends, between economic and foreign policy. Perhaps they can also stand to distinguish the parties in the upcoming election or at least shake them out of being too inward-looking.

How does the ownership of German-based companies affect the public interest? Former Clinton administration Labor Secretary Robert Reich famously posed this as the “Who is us?” question. If some German-based companies are owned by foreigners but are subject to German taxes and regulations, do their owners' passports matter to the general welfare? From Volkswagen takeover defenses to bailouts of construction firms, from allowing an Italian bank to take over HVB to blocking American private equity investors gaining corporate control in the Mittelstand, any German government will repeatedly confront this issue.

¹ See Adam S. Posen, “Mehr Mut, Deutschland,” *Internationale Politik*, March 2005, and “Auf der Kippe,” *Internationale Politik*, January 2005.

Voters should not let empty rhetoric about “stakeholder vs. shareholder capitalism” cloud the matter. The issue is one of how the government will make more down-to-earth assessments. Are the criteria for government intervention to be based on who is doing the purchasing (e.g., European or not)? On whether the corresponding country allows German purchases of businesses there? On the nature of the industry in question and its future prospects? On the scale of the company and the number of employees involved? On whether it involves access to sensitive or advanced technologies? Or is it solely a matter of antitrust policy, irrespective of who the owners are?

How should Germany treat workers from abroad? Given the presence of thousands of Eastern European and Portuguese temporary workers and millions of resident Turkish workers in today’s Germany, this could seem settled. The pressures for increased migration of workers into Germany from poorer countries, however, will continue to rise. Effective supply will continue to grow as transportation networks improve, ethnic communities gain footholds in Germany, and the relative benefits of working in a rich country’s service sector rise versus wages at home. German demand for migrant workers, whether acknowledged or not, will also grow as the society ages and the share of services in the economy rises.

Will the government simply turn a blind eye to such movements and effectively engage in laissez-faire for those inflows that are necessary but less than obvious? Will the German government work at the European level to impede the migration of workers, say by continuing to push a minimum wage set at German levels and resisting the current version of the Services Directive? Will it instead try to set up more active management in cooperation with partner (source) countries, like Poland and Turkey, and then try to exclude workers from elsewhere? Will it differentiate by skill level and try to “cherry-pick” high-skilled or scarce technical workers from poorer countries, while excluding the lower-skilled?

How should German wealth be utilized to aid the developing world, if at all? The recent G-8 Summit in Scotland pledged additional aid to Africa and debt forgiveness, with Germany signing on. Germany, of course, already is relatively generous with its aid to the developing world, by international standards—and of course is suffering from compassion fatigue at present, both politically and fiscally. Meanwhile, the foreign policy arguments for reducing poverty and economic instability in the world are mounting, while the conviction and evidence that aid actually does so is shrinking.

Do calls for European deepening before further enlargement imply greater openness and aid to the new EU-10 and reduced transfers to the rest of the poor world? Does the effort to define a soft power foreign policy mean that reactions to security issues will drive aid priorities (say to the Palestinian Authority or to rebuilding Iraq)? Or should that be balanced with commitments to, if not leadership of, multilateral efforts through the World Health Organization (WHO), the World Bank, and the United Nations Development Program (UNDP)? Should priority be given to cash transfers to developing-country governments or to provision of public goods (like clean water or mosquito nets) outside of national authorities? Does aid substitute for or complement giving poor countries market access to Europe in textiles and agriculture and cutting rich-country subsidies of their own exports in those areas?

Is the economic rise of China a reason for cooperation or competition with the United States? Let us take for granted that economic engagement with China is both beneficial and inevitable. There still are at least three areas where the new German government will have to determine its approach to integration of China in the world economy: First, what measures it is willing to undertake to promote German investment and contracts with the Chinese government; second, what standards—be they of human or workers’ rights or of intellectual property protection—it will seek to enforce upon the Chinese government and exporting companies; and third, what the German government is willing to do, if anything, to bring China into the leadership of the global economic system. And all of these

areas present a choice as to how the approach will interact with that of the United States, China's biggest export market and potential opponent on security matters.

On gaining Chinese investments and export opportunities, there could be a bidding war between the United States and Germany, or there could be agreements to limit such competition (either the means or the extent). On standards to hold China to, it is difficult to imagine them being enforced without transatlantic cooperation, but it is also difficult to see easy agreement on what standards are desirable and practical (technology transfer restrictions? Religious freedom?). On bringing China into the global leadership, there are a range of options, but any entry into already existing institutions will require some reallocation of current representation between the United States and Germany and/or the European Union to make room, whereas creation of new venues or institutions will work only if both the United States and Germany are willing members.

One could give the "right" answers to most aspects of these four questions from an economic point of view or at least speak of what set of answers follows from a given set of policy assumptions and priorities. Right now, it is more important to have the German electorate hear the parties' and candidates' answers to these questions—and thereby remind the politicians that globalization cannot be ignored, even when times are tough.