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Introduction

More than a decade ago, globalization became a driving force that reshaped production structures and changed business models around the world. Although globalization was once considered by many an unstoppable and positive process, the severe economic downturn that started in 2007 has forced advanced western economies to re-examine their economic models and to look for strategies that will ensure their sustainability. Germany's economic performance, its innovation capacity and its influence in EU debates means that the German model has featured strongly in academic and public policy debates. But can the German model be imported? And is importability desirable from the perspective of recipient countries? This article starts by describing the German model and framing the terms of the debate; the importability of the model is then discussed before concluding with a recommendation.

The German model and the debate around it

Economic performance cannot be explained as a product of a ready-made recipe. Nonetheless, when academics and policy-makers discuss the German model they generally refer to a particular set of mutually reinforcing macro and microeconomic features. From a macroeconomic viewpoint, the German model involves a preference for current account surpluses, low inflation, well-balanced fiscal accounts, low levels of public debt relative to GDP, and a generous welfare state. From a microeconomic perspective, the basic features of the German model are a strong system of higher education and vocational training, consensual labor agreements, local banks with specialized business knowledge, and a dense and high-quality network of institutions devoted to industrial innovation. The macroeconomic features of the model deliver the type of socioeconomic stability that provides a sound basis for economic activity. The microeconomic features support a strong manufacturing sector characterized by the presence of numerous medium-sized firms, a preference for business strategies focused on high-quality production, and a thriving innovation system that underpins the sustainability of the model.

Germany's economy has performed strongly since the 2000s and has suffered the effects of the 2007 crisis less severely than other western economies. In addition, the strength of Germany's manufacturing sector and its capacity to generate innovation stands out in the midst of a generalized decline in manufacturing capacity among advanced industrialized nations. Furthermore, Germany plays a pivotal role in Europe's landscape, and in funding critical bailouts for crisis-hit peripheral European countries. These circumstances have situated the German model at the center of scholarly and policy debates regarding the sustainability of different models of capitalism. Debate appears to have been more intense in countries which have lost a significant portion of their manufacturing capacity in recent decades such as the United States and in Europe's southern peripheral countries.

The German model has been analyzed as part of discussions about the decline of manufacturing capacity in the United States and America's ability to generate future

innovation. Berger (2013) uses the German model to illustrate the idea of a sustainable industrial ecosystem in which medium-sized manufacturing firms can generate innovation and capitalize on it thanks to their access to a full range of public goods. She points to Germany's case to show that the decline of manufacturing in advanced nations is neither natural nor inevitable. Instead, she contends that manufacturing decline derives from the existence of gaps in national industrial ecosystems. Her research identifies the scaling up of innovation and commercialization as the two biggest obstacles for US manufacturing firms. She relies on a comparative analysis of the United States and Germany to contend that success in these two stages depends on the ability of firms to: (a) take part in close and continuous interactions among researchers, producers and clients, and (b) access a full range of external capabilities—especially qualified labor, flexible labor agreements, long-term capital, and research facilities—. Researchers, producers and clients develop close interactions when research and manufacturing takes place in close proximity, as it happens in Germany. The external capabilities mentioned above exceed the resources of individual firms. Therefore their provision requires extensive coordination among economic actors.

Breznitz (2014) also compares the US and German models in relation to innovation but attributes Germany's advantage to a difference in attitudes and preferences rather than the particular features of the model. He questions the conventional division between radical and incremental innovation and contends that Germany is as good as the United States at producing radical innovation. However, he points out that Germany innovates across sectors to generate widespread productivity gains rather than concentrate innovation solely in high-tech sectors. In addition, Germany's innovation, unlike the US' does not necessarily aim to reduce or eliminate the need for workers. According to this argument, the German model approach is superior to that of the United States in terms of adapting innovation for widespread industrial use, which explains the resilience of Germany's manufacturing sector. The German approach to innovation also generates a virtuous circle in which higher productivity generates employment growth and income expansion, ensuring the sustainability of the model.

References to the German model also take center-stage in discussions regarding the transformation of peripheral European economies severely affected by the economic crisis. There are two lines of discussion in this debate. The first revolves around the application of the macroeconomic features of the German model to crisis-hit countries. The second discusses the importability of the German model's microeconomic features. Tackling the first discussion, Bronk and Jacoby (2013) contend that Germany's outperformance in the eurozone and its pivotal role in funding bailout programs have given Germany's current government a disproportionate role in shaping bailout conditionality mechanisms such as fiscal balance. They recognize that Germany's intention is to prevent some countries from free-riding on the fiscal prudence of their neighbors. However, these authors point out that fiscal balance represents a particular view on how fiscal policy works, which in turn shapes the interpretation of facts. Bronk and Jacoby also contend that in a context of high uncertainty and rapid change, the widespread application of what they call "the German consensus" will limit regulatory innovation across the EU, which will reduce Europe's ability to respond to unexpected shocks. They also point out that the macroeconomic features of the German model, in particular fiscal balance, may not be the most effective measure in all contexts. Wolf (2013) emphasizes this last point and argues that the imposition of fiscal

austerity to crisis-hit European countries will likely prolong their stagnation, increase the risk of deflation in the eurozone, and contract the world economy. Despite these potential effects, Argandoña (2012), believes that peripheral economies will need to become more similar to the German model if they want to remain in the eurozone.

The second discussion revolves around the adoption of the German model's microeconomic features. The discussion appears to have been especially intense in Spain. Fernández-Villaverde and Garicano (2009) discuss the convenience of borrowing specific features of the German model, such as the '*Kurzarbeit*'(short-time work) program to help diminish unemployment. However, these authors conclude that the program is not suitable for the Spanish context because it is designed to manage a temporary demand shock whereas Spain's situation has a structural component. Fernández-Villaverde and Garicano also contend that implementation would be complex and would entail high costs. Chislett (2014) abounds on the idea that national factors undermine the advantages of borrowing particular features from the German model. He points out that recent Spanish efforts to stimulate exports and contain labor costs aim to bring Spain closer to the German model. Nonetheless he argues that these measures are unlikely to make Spain similar to Germany because there remain large differences in dimensions such as the share of manufacturing in GDP, the number and degree of obstacles to open a new business, worker qualification, and limited investment in research and development.

Can and should the German model be imported?

Looking up to leading economies and examining their structures in search of best practices is a long-established policy practice. However, before taking the decision to import a particular economic model, a recipient country should consider the potential pros and cons. Berger and Breznitz highlight the strengths of the German model; especially its ability to generate innovation across the board and to support a flourishing manufacturing sector. The combination of innovation and manufacturing production underpins the sustainability of the model because innovation stimulates productivity, which in turn fuels growth. From Berger's work, it also follows that a country's capacity for innovation will decline in the absence of a strong manufacturing sector because researchers will be unable to develop close interactions with suppliers and clients.

The virtuous connection between innovation, manufacturing capacity, and economic sustainability makes the German model relevant to leading innovative economies that have moved abroad a significant portion of their manufacturing capacity such as the United States. The connection between manufacturing capacity and innovation also makes the German model appealing to European peripheral countries whose manufacturing sectors have shrunk due to their inability to innovate. Spain is a case in point. The main motivation behind Spanish industrial policy programs in the past decade has been to strengthen the connection between manufacturing capacity, innovation, and economic growth (Trullén 2006, Soria 2013). However, despite its appeal, it is not clear whether a country could import the German model, and even if it could, it is not certain that the import approach would be the optimal course of action.

Economic models have an internal structure consisting of regularized, norm-like practices or institutions. Institutions make a model internally coherent, generate trust, and send signals to firms as to what strategic paths of action are supported by the system, and which ones are not. This shapes the strategies of firms and lowers the costs and the risks of strategic decision-making.

An institutional perspective has several implications for the adoption of successful foreign models such as Germany's. First, it means that the German model is much more than the macroeconomic and microeconomic features mentioned in the first section of this article. In fact, the key to the success of the model may not depend on importing those particular features, but on transplanting the institutions that bind them together and keep the system running. However, institutions are difficult to replicate. Institutions can be either explicit (codified) or tacit (rooted in experience and common knowledge). An economic model will include both types of institutions, although some models may rely more on one type of institutions than the other. The German model tends to rely on explicit or codified institutions. Nonetheless, the presence of tacit institutions in the German model will make it difficult to import because tacit institutions are difficult to identify, define, and therefore to transfer. Explicit institutions also present problems. Despite their explicit nature, explicit or codified institutions are abstract or general norms which means they need to be interpreted and fine-tuned every time they are applied to a specific situation. Interpretation is rooted in shared values, principles, and habits that may not be shared across countries and which evolve over time. Differences in values and principles between German and the recipient country will lead to two possible outcomes in the recipient country. In the worst case scenario, interpretations can lead to misalignments in the system and economic underperformance. In the best case scenario, institutions will simply evolve along a different path than in Germany and so become something different. The consequence in either case is that the imported German model will not generate the same economic benefits in the recipient country as it does in Germany.

Second, importing the German model is not the optimal course of action for a country that wants to strengthen the sustainability of its economic model. Institutional solutions are the result of a negotiation process and of the agreement reached among the parties involved. Consequently, institutions are not necessarily Pareto optimal solutions to the problems they aim to solve. If this is true in Germany, the original environment in which the institutions behind the German model developed, then the likelihood that those institutions will represent an optimal solution for another country's situation is even lower. By importing the German model, economic actors (governments, firms, and social partners) in the recipient country forfeit the opportunity to develop a system specifically designed to fit their context and address their problems. Moreover, importing the German model would be a long-term process of deep change that could not be imposed from above and executed through government fiat. Successful implementation would require a broad political consensus, a guiding agreement that provides long-term focus and direction to the program of economic reforms, and active cooperation from social intermediaries and firms; especially leading firms. Under most circumstances, a country facing such a major, long-term undertaking will be better off developing a model specifically tailored to its circumstances, rather than importing one.

Third, institutions tend to remain in place long after the situation they aimed to solve has already changed. Therefore, by the time a country imports Germany's institutions, they will not be the most up-to-date solutions to the situation at hand. This is true even if Germany and the recipient country are subject to similar environmental pressures—such as globalization—or if they share a common supranational structure—as is the case with EU countries—because external environmental shocks will have different effects depending on a country's productive structure. This is particularly relevant for peripheral European economies because their productive structures and economic fundamentals are significantly different from Germany's.

Fourth, as Bronk and Jacoby point out, in a rapidly changing interconnected world no single economic model can claim to offer the best suitable solution to all practical challenges. Confronted with new, turbulent or uncertain conditions, economic actors need to invent new ways to solve challenges that are not well addressed by existing systems and they need the flexibility to adapt those solutions rapidly as circumstances evolve. By importing the German model, the recipient country renounces its ability to generate regulatory innovation, and to benefit from "last mover" advantages.

Recommendations and conclusions

The previous section argued that importing the German model would not only be difficult, but it would not even generate the same results in the recipient country as it does in Germany. Furthermore, importing the German model may not be the optimal course of action.

Nonetheless, the German model can still be of use to countries that need to transform their economic models. Existing analyses of the German model reveal that in order to thrive and generate a steady stream of innovation, manufacturing firms need a sound macroeconomic environment, an industrial setting in which firms can develop a rich and dense network of relationships, and access to a full range of resources outside their walls. Knowing that these are critical factors, a thorough analysis of the recipient country can help identify strengths and weaknesses in these areas.

Once a country has identified its strengths and weaknesses it can start to develop a plan of action. Policy options should be tailored to the country's context, and should build on existing institutions to facilitate the transition between the pre-existing and the new economic model. This does not mean that projected reforms should not challenge the foundations of the pre-existing model. On the contrary, the weaker the pre-existing model, the more likely it is that reforms will need to challenge it.

However, the deeper the reforms to the model, the more likely it is that they will face opposition from entrenched groups. Furthermore, implementation will require the mobilization of significant resources over a large period of time. The most effective way to minimize these obstacles will be to build consensus about the main lines of reform. Consensus and commitment around reforms will develop through negotiation among all relevant economic agents (political parties with government representation, social intermediaries, and leading firms).

A consensual agreement that provides focus and direction to the projected reforms will not necessarily lead to a Pareto optimal economic model that maximizes economic performance and ensures sustainability. However, a reform plan that emerges from the analysis of the national context, followed by a process of collective deliberation and agreement, will be specifically designed to address the country's current problems and has better chances of addressing its weaknesses than an imported model.

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