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Germany in 2013: A Special Case for an Unpredictable Future

In today's contemporary setting, Germany portrays the status of an economic example for efficiency. “Germany has long been Europe's strongest economic power; it has a gross domestic product of about \$3.1 trillion – the fifth largest in the world...”¹ and represents one of the most influential states in Europe. With a highly trained populous, and the ability to develop and manufacture some of most modern technologies, medical advancements, and global products, “[t]he country's leading role does not always sit well with its citizens, who have protested calls from eurozone finance ministers for Germany to increase bailout funds for countries such as Italy, Spain and Greece.”² Also sometimes referred to as the “China of Europe”³ for two reasons, Germany has the capacity of an economic juggernaut relative to its neighboring states in Europe. Briefly, China is able to form a symbiotic relationship with Germany. Starting with the first reason, the brand name of China represents the dominant economic power of Germany as a manufacturing giant in Europe; the second reason being a free market for China and the capacity of providing a greater economic reach into European markets for China.⁴ An important topic that will be addressed later in this paper will be Germany's relationships with other states in a globalized context.

To introduce and to adequately understand Germany's role in the European Union and in an international environment, an historical analysis depicts crises of German political and economic culture. To begin, Germany was segmented into a groupings of cities that did not

1 Meghana Keshavan, “Where Michigan Does Business; Germany.(German Operations of Domino’s Pizza Inc, Dow Chemical Co and Ford Motor Co.),” *Crain’s Detroit Business* 28, no. 15 (April 9, 2012).

2 Ibid.

3 Suwatchai Songwanich, “Germany - the China of Europe? - The Nation,” *The Nation*, March 18, 2013, <http://www.nationmultimedia.com/opinion/Germany--the-China-of-Europe-30202132.html>.

4 Ibid.

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suggest threat, but rather a buffer zone between France and Russia.⁵ Next, with the rise of nationalized danger from France and increased literacy, a unified Germany was defeated in two world wars and survived through major economic crisis. “After World War II, West Germany's strategy was threefold;”⁶ Germany needed to defend from Soviet influence through NATO, to align economic activity with the west, and to reacquire autonomous statehood “without posing a geopolitical threat to Western Europe.”⁷ In each case of crisis, Germany adapted institutions to integrate itself in a manner that allowed for survival. Furthermore, the resilience of Germany as a state marks the fascinating role it serves in yet another major crisis, especially since “[t]he idea of Germany having an independent national strategy runs counter to everything that Germany has wanted to be since World War II and everything the world has wanted from Germany.”⁸

In the contemporary era, the crisis impacts not only Germany. In fact, the entire world is impacted from the decisions that German leaders make. This paper aims to highlight the role of any advanced democratic state in a globalized world. Additionally, I will address the validity in the arguments of noteworthy political economists, Adam Smith and Douglass North, by relating the importance of developing effective institutions to sufficiently mediate any potentially disastrous events of the future. Furthermore, the scholarly insight that many academics utilize to describe advanced democracies, globalization, and political economy will support the claims I make pertaining to the dynamic and changing role Germany faces in the near future.

5 George Friedman, “The State of the World: Germany’s Strategy,” *Stratfor Global Intelligence*, March 21, 2012, Geopolitical Weekly edition, <http://www.stratfor.com/weekly/state-world-germanys-strategy>.

6 Ibid.

7 Ibid.

8 Ibid.

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Advanced Democratic Society

German development and progress over time relates commonly to the characteristics of advanced democratic societies. And for this essay, progress is defined as the ability to survive and even thrive after a crisis. Maurice Duverger examines that the number of parties of a state relies on the type of political system; specifically to Germany, its proportional representation systems include more parties.⁹ Moreover, Torben Iversen and David Soskice find Germany supports a system which tends to create center left governance¹⁰ ultimately leading to increased government participation through socially democratic actions. Margarita Estevez-abe, et al. Find that a state like Germany is more likely to, and has presently developed, specialized workforces which aid individuals allowing them to take the risk of developing hyper-specialized skill sets.¹¹ The industrious and creative nature of a populous such as Germany's allowed for a prosperous state. With an institutional structure that incentivizes hyper-specialized labor forces, coupled with the unification processes of the 20th century, Germany thrived similarly to the outcome of many other advanced democracies.

But before celebration occurs of an unchanging future, the role of government and policy-making with regard to the changing trends of globalization must be examined. Otherwise, other supporting actors of the international system, such as poorer states, may suffer. According

9 Maurice Duverger, "The Number of Parties FROM Political Parties," in *Essential Readings in Comparative Politics*, ed. Patrick H. O'Neil and Ronald Rogowski, 3rd ed. (Wells Street, London: W. W. Norton & Company, 2010), 282–286.

10 Torben Iversen and David Soskice, "Electoral Institutions and the Politics of Coalitions: Why Some Democracies Redistribute More Than Others," in *Essential Readings in Comparative Politics*, ed. Patrick H. O'Neil and Ronald Rogowski, 3rd ed. (Wells Street, London: W. W. Norton & Company, 2010), 287–295.

11 Margarita Estevez-abe, Torben Iversen, and David Soskice, "Social Protection and the Formation of Skills: A Reinterpretation of the Welfare State," in *Essential Readings in Comparative Politics*, ed. Patrick H. O'Neil and Ronald Rogowski, 3rd ed. (Wells Street, London: W. W. Norton & Company, 2010), 303–320.

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to one excerpt from *The Economist* “[g]overnments in rich countries need to look again at their social policies, partly to make sure that temporary and longer-term losers from globalisation, and from economic growth in general, get well-designed help.”¹² Because the globalized economy is similar to a system of nature, as James B. Glattfelder suggests, one node will inherently impact any other node in the system¹³ – regardless of the size.

One possible explanation to the continued post-WWII prosperity of Germany is the collaborative aspect inherent in their agreements. Already discussed is the participation of Germany in the development of a European community; likewise, Germany participates in military collective security represented as NATO. Additionally, the ongoing development of a “Made in China-Germany’ partnership,”¹⁴ Germany’s “extended support to Turkey during its EU term presidency,”¹⁵ its agreements with Ireland including the desire of Ireland for cooperation,¹⁶ the economic and political agreements that increase the energy available to Azerbaijan and Germany,¹⁷ and the pledge to support Afghanistan in training officers and a police force¹⁸ are only some of the many commitments that Germany creates with global partners. According to

John Ikenberry in his book *After Victory*, leading states, like Germany, can forfeit short-term

12 The Economist, “Is Government Disappearing?,” in *Essential Readings in Comparative Politics*, ed. Patrick H. O’Niel and Ronald Rogowski, 3rd ed. (Wells Street, London: W. W. Norton & Company, 2010), 296–303.

13 James B. Glattfelder: *Who Controls the World?* | Video on TED.com, accessed February 13, 2013, http://www.ted.com/talks/james_b_glattfelder_who_controls_the_world.html.

14 Songwanich, “Germany - the China of Europe?”.

15 BBC, “Article: Turkish Premier Praises Germany’s Role in Fighting Terrorism. | AccessMyLibrary - Promoting Library Advocacy,” *BBC Monitoring International Reports*, October 30, 2012, <http://www.accessmylibrary.com/article-1G1-306952591/turkish-premier-praises-germany.html>.

16 Irish Times, “Deeper Ties with Germany in Our National Interest,” *Irish Times*, August 31, 2012, <http://www.irishtimes.com/debate/deeper-ties-with-germany-in-our-national-interest-1.545393>.

17 S. Agayeva, “Foreign Minister of Germany: German Government Aims at Long-term Relationship with Azerbaijan (PHOTO),” *Trend News Agency*, March 14, 2012, Iran edition, sec. Politics, <http://en.trend.az/news/politics/2003657.html>.

18 BBC, “Article: Paper Welcomes Afghan-German Strategic Agreement. | AccessMyLibrary - Promoting Library Advocacy,” *BBC Monitoring International Reports*, May 21, 2012, <http://www.accessmylibrary.com/article-1G1-290373520/paper-welcomes-afghan-german.html>.

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gains for longer-term institutionalized benefits.¹⁹ In essence, Germany seems to understand the importance described in Ikenberry's logic of collaborating in a global context.

Globalization

In discussing the ideas of interconnected society, globalization is a trend that exists predominately in the historical development of the human species; however, in the specific case of states, some states do not benefit to the same degree as states that are leading actors within the overall international environment. The main differences, according to Richard Florida, between rich and poor states suggests that while every state gains wealth, the wealthier are able to capitalize to a greater extent.²⁰ Supported by notions of hegemony and hierarchical order, where leading states can take advantage of poor states,²¹ the phenomenon is not necessarily always true, especially if the order is constitutional in nature – or if institutionalized reform compels states like Germany to assist poor states.²² “Berlin has pledged to support Afghan police after 2014,”²³ Germany and Turkey have many areas of commonality, and transnational agreements may allow Germany to grow its role in the region while assisting the Turkish.²⁴ For Ireland “working in concert with other European countries, Germany is certainly a hugely significant part of that solution.”²⁵

19 John Ikenberry, *After Victory* (Princeton, New Jersey: Princeton University Press, 2001).

20 Richard Florida, “The World Is Spiky: Globalization Has Changed the Economic Playing Field, but Hasn’t Levelled It,” in *Essential Readings in Comparative Politics*, ed. Patrick H. O’Neil and Ronald Rogowski, 3rd ed. (Wells Street, London: W. W. Norton & Company, 2010), 516–521.

21 Ikenberry, *After Victory*.

22 Ibid.

23 BBC, “Article: Paper Welcomes Afghan-German Strategic Agreement. | AccessMyLibrary - Promoting Library Advocacy.”

24 BBC, “Article: Turkish Premier Praises Germany’s Role in Fighting Terrorism. | AccessMyLibrary - Promoting Library Advocacy.”

25 Irish Times, “Deeper Ties with Germany in Our National Interest.”

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Jagdish Bhagwati suggests that the development of countries collaborating with Germany – and possibly other leading states – prevents negative externalities from accruing and disrupting global order.²⁶ A positive sum-game is possible:

Since the global economic crisis in 2008 the relationship between Germany and China has grown in importance. Indeed, demand from China was a significant factor in Germany's economic resilience during the crisis. China is Germany's third-largest export market after France and the United States, with exports to China now accounting for almost 8 per cent of Germany's total. On China's side, Germany is its most important European partner, with many complementary factors between the Chinese and German economies. For example, Germany is strong in industries which China regards as strategically important, such as automobiles, renewable energy and advanced technology.²⁷

To discuss the relatively bitter side of globalization, Niall Ferguson discusses globalization's end through a trigger of crisis.²⁸ Ferguson might find the trigger to be economic, specifically related to the danger of SCDS (Sovereign Credit Default Swaps²⁹). SCDS are potentially both dangerous and lucrative, and are financial tools that involve a series of nested assets – representing an exchange of debt backing credit. “A key argument was that in allowing punters to bet on and profit from a sovereign default without even owning the underlying bonds, the market was prone to speculation and overshoot that had unnerved investors and precipitated the very creditor strikes, bailouts and even the defaults being bet on.”³⁰ In other words, the ability to keep the Eurozone from collapsing is a major risk to the global economy because a great deal

26 Jagdish Bhagwati, “In Defense of Globalization,” in *Essential Readings in Comparative Politics*, ed. Patrick H. O’Niel and Ronald Rogowski, 3rd ed. (Wells Street, London: W. W. Norton & Company, 2010), 521–526.

27 Songwanich, “Germany - the China of Europe?”.

28 Niall Ferguson, “Sinking Globalization,” in *Essential Readings in Comparative Politics*, ed. Patrick H. O’Niel and Ronald Rogowski, 3rd ed. (Wells Street, London: W. W. Norton & Company, 2010), 526–533.

29 European Central Bank, “Credit Default Swaps and Counterparty Risk,” *Eurosystem* (August 2009): 4–5. Refer to an earlier section of a larger research project for an in-depth analysis of the credit default swap process... Dr. Forestiere, this is more of a note for me, because I am planning on combining a few different papers I worked on this semester into a larger piece of scholarly work (including the URCAD research and this paper after some revisions)

30 “Naked CDS: Exposed,” *Derivative Dribble*, August 10, 2009, <http://derivativedribble.wordpress.com/2009/08/10/naked-cds-exposed/>.

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of the outcome is not controlled by Germany, but rather investors instead. Ferguson may notice the possibility of a globalized economy running – metaphorically – out of control similar to states and governments becoming powerless to a compelling force greater than government.

Political Economy

The economic crisis currently developing in the eurozone, while supported by Germany does not conclusively appear to have improved since the 2008 Financial Crisis. Moreover, “[w]ith governments trapped in austerity, banks refusing to lend and leaders resorting to urgent bids to unlock tax hidden in offshore bank vaults, the eurozone is now firmly entrenched as the global economy's 'weakest link,' according to Dutch-based ING analysts.”³¹ To make matters worse, major advanced democracies in Europe do not seem to be recovering. In fact, the only sign of resilience stems from Germany. Even then, decline is a possibility for all states in Europe. “While core economy Germany clambered out of negative territory with 0.1-per cent growth after a 0.7-per cent slide at the end of 2012, France sank into recession with a 0.2-per cent reduction and both Italy and Spain posted 0.5-per cent drops, the figures showed.”³²

Yet presently, the theories of political economists are not lost in history. Adam Smith generally speaks to the notion of exchange, in so far, as a reference to the division of labor. Even in the face of crisis, the ability to exchange may not be confined to a price system because “the propensity to truck, barter, and exchange one thing for another...”³³ will most probably be an institutionalized ability of humans. And, because exchange in a globalized environment often

31 Roddy Thomson, “Eurozone Economy Trapped in Recession,” *NewsComAu*, May 15, 2013, <http://www.news.com.au/breaking-news/world/eurozone-recession-deepens/story-e6frfkui-1226643361980>.

32 Ibid.

33 Adam Smith, “An Inquiry into the Nature and Causes of the Wealth of Nations,” in *Essential Readings in Comparative Politics*, ed. Patrick H. O’Niel and Ronald Rogowski, 3rd ed. (Wells Street, London: W. W. Norton & Company, 2010), 105–111.

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occurs at a quicker rate relative to the past, less time is allotted for leaders in reacting to events.

The glimmer of hope is in the notions of Douglas North and the description of institutions.

Institutions are formal and informal rules which “create order and reduce uncertainty in exchange... [whereby] effective institutions raise the benefits of cooperative solutions or the costs of defection...”³⁴ Are SCDS adequate institutions supporting growth prosperity or SCDS actually inhibit growth? My suggestion to this question is to consider that the level of uncertainty in the international environment has increased; but, the counterpoint to my suggestion is one where society hold one certainty – uncertainty in the global order.

Implications for Germany and the World

To borrow ideas from John Ikenberry, Germany is a leading state with high level of influence which it could exert on other states.³⁵ Said to a bolder degree, Germany has the ability to dramatically alter the institutions of Europe, if not the world; and, it controls more political and economic capital relative to most states. In 2013, the institutional fabric of Germany may once again be tested to the degree of prior extreme events. These events could be as disastrous as previous periods of crisis in German history. And while the specific instance or type of catastrophe may be uncertain, the extreme degree of that uncertainty in the immediate future is well defined due to speculation from investors.³⁶

Germany may have the ability to radically change its role in international society, or it may attempt to preserve the status quo. “In a way, the entire structure of modern Europe was created to take advantage of Germany's economic dynamism while avoiding the threat of

34 Douglass North, “Institutions,” in *Essential Readings in Comparative Politics*, ed. Patrick H. O’Niel and Ronald Rogowski, 3rd ed. (Wells Street, London: W. W. Norton & Company, 2010), 116–127.

35 Ikenberry, *After Victory*.

36 “Naked CDS.”

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German domination... [and there is] the possibility that the basic structure of Western Europe since World War II and of Europe as a whole since 1991 is coming to a close.”³⁷ One of the many possible scenarios – which I caution are only possibilities – are merit worthy enough as the most altering condition to international relations. This scenario is meant to be more of a thinking exercise since it would radically alter the interactions between state and non-state actors.

The European Union could disintegrate for better arrangements between states. One example is the “Russo-German relationship [which] already exists and is deepening. Germany thinks of it [currently in May 2013] in the context of the European Union, but if the European Union weakens, Russia becomes Germany's natural alternative.”³⁸ Other already discussed relationships of Germany are numerous trade arrangements with China and other states. The European Union disintegrating could allow for Germany to exert dominance by changing international order³⁹ – this suggested scenario describes a multipolar world.

Germany and other advanced democracies create the opportunity to form a variety of different complex institutions. A stratified system ought to form in a country – or even a group of countries-based on the needs presented; thereby, an institutional configuration should suit the advanced democracy (or advanced democracies, or complex arrangement of states).⁴⁰ Stefania Vitali et al. analyze nodes in different systems where each node impacts every other node.⁴¹ Is it possible that actors on an international stage are also nodes in the (special case of the)

International System? Globalization currently divides poor and rich to a greater extent, and

37 Friedman, “The State of the World.”

38 Ibid.

39 Ikenberry, *After Victory*.

40 Andrew Hurrell, *On Global Order*, 2nd ed. (Oxford, NY: Oxford University Press, 2009).

41 Stefania Vitali, James B. Glattfelder, and Stefano Battiston, “The Network of Global Corporate Control,” *PLoS ONE* 6, no. 10 (October 26, 2011): e25995, doi:10.1371/journal.pone.0025995.

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divergence appears to lessen every opportunity for every actor. Convergence illustrates an alternative possible world where the otherwise negative externalities actually become positive externalities instead. Theories of political economy suggest that finding the delicate arrangement of institutions which properly benefit a state is worth the cost. In different terms, the investment in institutional arrangements which create uniform development and prosperity allow for the security of every actor and the sustainability of other positive institutionalized governance mechanisms.