

Speech by Richard W. Fisher, President and CEO (2005–2015)

Is German Economic Decline Exaggerated or Inevitable?

Remarks before the American Academy

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I have known and admired Norbert Walter for a very long time. And I have known and admired Germany even longer. I have come to Germany countless times over the past 30 years, but what Norbert forgot to say in his overly kind introduction is that this is the first journey I have made here as a central banker.

Being a central banker makes it especially difficult for me to provide what has been requested of me by the American Academy: an updated examination of Germany's economic health—its physiology and some of its pathologies. To speak as a central banker in any German forum is daunting. No representative of the Federal Reserve can claim anything but admiration for the way the FRG's Bundesbank managed its affairs in the pre-euro days of the Deutsche mark. The pernicious effect of inflation was well understood by the Bundesbank when it dominated the European economic landscape.

From its creation on June 21, 1948, until its retirement on December 31, 1998, the DM retained its value better than any other major currency. Over the 50-year lifespan of the DM, consumer prices in Germany increased about fourfold. Over the same period in the United States, consumer prices increased about sevenfold, in significant part due to the laxity of the 1970s, before a grandson of German immigrants, Paul Volcker, restored discipline over monetary policy. The Bundesbank's legacy has been solidly imbued in the European Central Bank. Any central banker anywhere in the world is grateful for Germany as the exemplar of monetary probity. I certainly am.

But I do not appear here before the American Academy in my capacity as CEO of the Federal Reserve's Eleventh District. I am here solely as a friend of Germany, having been asked to revisit a speech I gave before the Atlantik-Brücke's annual meeting in June of 2004, well before I joined the Federal Reserve. The title of that speech was "Can Germany Hold Its Own in the New World of a Reconfigured Europe, An Ascendant China, and 21st Century America?"

The answer I gave to that question almost two and a half years ago, when I was a private citizen, was an unqualified "no." Not at the time I delivered that speech. The question today is: has anything changed?

First, I want to firmly state that I am not in any way, shape or form speaking today as a representative of the Federal Reserve. It is standard practice for all Federal Reserve officials, save the Chairman on only two annual occasions, to state that when we speak in public, we

speak only for ourselves, offering only our own personal views. I often imagine a collective “amen” follows this prudent disclaimer, especially in my case on those many occasions when I have spoken about monetary policy and the course of the U.S. economy! I want to especially underscore that disclaimer today. This is very much a personal speech.

I did not assume my post at the Fed until April of 2005. I was first introduced to Germany in the spring of 1976. My introduction to Germany came from Jack McCloy via my mentor, Robert Roosa. McCloy taught me that “Germany is the heart of Europe. It is the backbone of the European economy. No country is more important than Germany to the United States.” And he went on to say that “Our alliance with Germany needs close attention, nurturing and vigilance...because its strength embodies profound advantages, while its weakness could involve far-reaching dangers and risks.”

I took that advice to heart and have pursued an affectionate interest in Germany ever since meeting that truly great man. Jack McCloy’s words ring as true today as they did then.

McCloy and Roosa and another mentor, Michael Blumenthal, set in motion a series of opportunities that have allowed me to meet and follow, up close, the work of Helmut Schmidt and Helmut Kohl, seminal ministers like Hans-Dietrich Genscher and Otto Graf Lambsdorff, iconic Bundesbankers such as Otmar Emminger and Carl Otto Pöhl, and presidents von Weizsäcker and Carstens and Köhler. Over the years, many patient friends and German public servants, ranging from Walther Kiep to Matthias Wissmann to Wolfgang Ischinger, and too many business and academic and civic leaders to enumerate, all have spent countless hours trying to teach me Germany. As has my daughter Texana, a German studies concentrator at Harvard. I reviewed my long history with Germany in 2004 at the Atlantik-Brücke. I recount it now in summary form not to boast of my good fortune or to drop vintage German names, but to make clear that for almost 30 years I have done my level best to study and understand this country. My interest in Germany’s destiny could not be more sincere.

I delivered that speech when I was vice chair of Kissinger McLarty, well before I joined the Fed. In it, I made some pretty undiplomatic but heartfelt statements about Germany. Specifically, I argued that Germany, in 2004, was “so weakened economically and so riddled with outdated operating methods that it threatens the prosperity of Europe, the Euro-Atlantic alliance and the global balance of economic power.”

That was pretty stern stuff.

Here are some of the more pungent points I made in that speech two years ago, which drew upon the work of Professor Stephen Silva at the American Institute for Contemporary German Studies at Johns Hopkins University, an institute I had the pleasure of helping launch:

“German economic growth is anemic.”

“Germany is becoming less and less able to generate employment.”

“Germany’s relative competitive position has been eroding for over 10 years...Your workers are less productive than you think, and they work too little.”

“Your corporate sector’s R&D spending as a percentage of GDP...is declining....”

“Germany’s financial architecture is dysfunctional...and suffers from ‘Teutonic cronyism.’”

“There remain countless impediments to business efficiency...[tying] the hands of entrepreneurs and productive workers.”

“Corporate governance procedures are opaque and antiquated.”

“Germany’s educational system is overcrowded, under-funded, and [is] suffocating from bureaucracies that respond more to statutes than to the future needs of students.”

To wrap up that rather mild list of concerns, I cited the then bestseller entitled *Das Methusalem-Komplott* to suggest that Germany might well replace Florida as “God’s antechamber,” so worrisome are your demographics.

And then I concluded with evangelical fervor a quotation from the Book of Peter in the Bible: “Come, be serious and discipline yourselves.”

As my daughter Texana would put it: “Mein Gott Papa, kannst du bitte mehr direkt sein?— couldn’t you be just a little more blunt?” But I am pleased to report that the members of the Atlantik-Brücke and their tolerant guests at dinner that night cordially refrained from pelting me with their bread rolls. Their lack of outrage, more than anything else, convinced me that my words had struck a nerve. I had spoken frankly as a friend and admirer of Germany, and I believe now, as I did then, that I was spot on.

That was then. This is now. Upon rereading that speech to prepare for tonight, I was reminded of Berndt von Staden, the first German ambassador to Washington I had the pleasure to meet. He would later describe how Jimmy Carter dispatched his vice president and another aide to Bonn to convince Helmut Schmidt “to do his part to revive the...sagging world economy...” With wry criticism, von Staden later wrote: “I watched as the two gifted, youthful-looking gentlemen gave economic and fiscal advice to the very chancellor who had led his country through the energy and currency crises like no other had.”

I am not gifted. And I am certainly not youthful looking. I am tremendously sympathetic to the task that lies before the chancellor as she seeks to lead Germany through a historic crisis of another sort. And, having not been dispatched by anybody in Washington or by the Federal Reserve, I do not think it is my place to give advice to the German chancellor or any other German leader, for that matter.

I can, however, offer a cataloging of the prevailing criticisms I have read and heard about in tracking Germany’s efforts to overcome the problems I enumerated in 2004. The chancellor (and, to be fair, her predecessor, although perhaps too late in his tenure) has sought to

initiate change, but still there has been no shortage of critiques in the public domain, even though most would agree that the German economy has recently undergone a fundamental improvement.

Critics argue, for example, that in reality, the economy is only reflecting the benefits of a cyclical global upswing. These critics also argue that German industry's role as Exportweltmeister, even with the headwind of a strong euro, masks deep-seated problems. Some say that Germany's increased export performance stems largely from restrained wage growth relative to its European competitors rather than from improved productivity. This leads one to wonder how much more successful Germany would be in export markets if significant supply-side reforms were implemented.

The critics argue that recent corporate tax proposals will only modestly reduce Germany's tax disadvantage relative to its competitors. They point out that, on the whole, your private sector is undercapitalized and overtaxed.

The skeptics maintain that too many product markets remain too highly regulated and that regulation and high barriers to entry continue to suffocate growth;

That the service sector remains underdeveloped.

And, they argue that Germany has yet to find a way to harness the virtues of what the economist Joseph Schumpeter called "creative destruction," a process vital to moving any economy up the value-added ladder toward greater prosperity.

They warn that Germany's social welfare system rewards leisure, complacency and underinvestment, not productivity and risk taking.

They say that recent incremental changes in labor laws are far from sufficient.

They argue that flotation of the Landesbanken HSH Nordbank and the forced sale of Berliner Sparkasse, while encouraging, do not provide reassurance that—other than at the behest of Brussels—Germany's political leaders understand that state-owned banks are a hindrance to economic progress.

They maintain that the scrapping of the 50-year-old Ladenschlussgesetz in Berlin does not guarantee that the 16 Länder will take adequate advantage of the June reforms to your country's federal system—especially Bavaria!

Critics say the new healthcare proposals fail to sever the link between healthcare costs and wages, barely increase competition among healthcare suppliers and indeed risk making matters worse because, these critics argue, they expand the power of the state when precisely the opposite is needed.

Others worry about the challenges facing education and argue that charging tuition and board and making admissions procedures more selective are necessary but insufficient beginnings to educational reform. The recent initiatives taken to grant autonomy on courses and professorships in North Rhine-Westphalia and the gifts by Klaus Jacobs and Otto

Beisheim, exemplary as they are, are, according to critics, not enough to overcome poor teaching quality and low rankings among global universities.

They argue that the bureaucratization of elementary and secondary schools does far more damage to German children than the relentless television barrage of SpongeBob Schwammkopf in undermining the German education system, once the standard for the world.

To illustrate the consequences of failing to advance education, detractors note your continued slippage in rankings put out by the World Intellectual Property Organization. They note that you currently rank sixth in WIPO's rankings and have been surpassed by China in patent applications. And that, according to the Financial Times of October 30, 2006, "Germany is the worst performer among the larger European countries with a [bare] 2% R&D increase last year."

Critics point to recent studies by the International Institute for Management Development on labor market rigidity and disincentives to work to illustrate their concerns about Germany's labor market. They note that Germany ranked dead last among 60 nations in the IIMD's combined score, below France, Sweden, Brazil and Argentina.

Other critics open up the recent issue of Foreign Policy magazine and note that Germany ranks 18th out of 20 countries in the globalization index compiled by A.T. Kearney and the Carnegie Endowment for International Peace. That puts Germany behind Norway, Israel, the Czech Republic and Slovenia, and only slightly ahead of Malaysia and Hungary. These researchers cite Germany's low marks in economic integration, a paucity of foreign direct investment and middling internet connectivity as factors in the country's low ranking.

Against this background of concerns, there is, of course, constant comment about the capability of German government officials to lead. I need not review those arguments for you. For here in Germany, just as in the United States, questioning leadership has become a blood sport.

As a central banker, I prefer to steer clear of raw political sparring. Even so, the harsh tenor of criticisms tossed about by your elected leaders—between parties and even within parties—is strikingly shrill and worrisome.

In the end, just as there are doubts about America, there are significant uncertainties about Germany's ability to adjust to the newly reconfigured world.

So, has anything changed since that 2004 speech? I would say that much progress has been made since my comments to the Atlantik-Brücke and that, despite the criticisms enumerated above, I am encouraged.

Were I asked what needs to be done next, my reply would echo any concerned friend of Germany: that everyone in this country, from the Facharbeiter to the Kundenberater to the Vorstandsmitglied, must seize the opportunities presented by recent reforms and by the improving business cycle to help Germany prosper anew.

There is no denying significant efforts have been undertaken to overcome the inertia of the German economy I described so graphically in 2004. But the work of adapting to a changing world is never done. Globalization is an inexorable force. Nicholas Sarkozy of France said it best just two weeks ago. “It would be as pointless to deny [globalization] or oppose it as to challenge the law of gravity or to stop the movement of the clouds.”

Germany has embarked upon what is certain to be a long and difficult journey to secure its future in a tough, competitive, globalized world. Success will require the kind of determination that was the hallmark of the Bundesbank during the postwar period. And just as the Bundesbank charted the best course to navigate a treacherous world, the German private and public sectors must again become exemplars of how to successfully navigate a globalized one.

To wrap up, I am going to do something that I believe no other American speaker would dare do. I am going to quote Calvin Coolidge! Those who know American history know that President Coolidge didn’t say much, but when he did speak, he said a great deal. “Nothing in this world,” Coolidge said, “can take the place of persistence...Persistence and determination alone are omnipotent. The slogan ‘press on’ has solved, and always will solve, the problems of the human race.”

Persistence in pursuing economic reform will solve the problems that threaten Germany’s future. Germany must “press on” with needed reforms to its laws and to its attitudes toward competition and the pursuit of excellence.

And so I conclude with a modified exhortation from my evangelical 2004 speech: Come, be serious and discipline yourselves. For the sake of Europe, the Atlantic Alliance and the world. For your sake. And ours. Press on. There is still much to do.

Thank you.

About the Author

Richard W. Fisher served as president and CEO of the Federal Reserve Bank of Dallas from April 2005 until his retirement in March 2015.