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# What Is Motivating Germany? Reform

*Breaking up outdated economic structures would help countries beset by crisis prepare for a better future*

By Klaus F. Zimmermann

In the global debate about the eurozone crisis, Germany has come in for a lot of criticism. The German position has been described as engaging in a "morality tale" aimed at forcing other countries to pay back their debts. Alternatively, it is regarded a display of "nationalism" (by just pursuing narrow Germany's interests) – if not as practicing "hegemony" (by seeking to impose a German model onto the rest of Europe).

I am struck by how much these descriptions – juicy as they are in purely journalistic terms – miss what really drives the German government. To see what the real driving force is, just ask yourself this question: Why do Germans talk so much about the need for structural reforms in Europe?

German policymakers are painfully aware that, among the advanced economies, there is one major country where structural reforms – such a touchy matter in Europe – really are no political issue. That country is the United States.

The United States has the immeasurable advantage that embracing change on an ongoing basis is simply built into its national DNA. Nobody there is asking for permission to engage in it. Change is simply happening all the time.

Much of the same is true in many of the dynamic emerging markets, especially in Asia. Like it or not, those are realities Europe has to contend with.

Next, ask yourself why Germany is so insistent on pursuing structural reforms in Europe. Because without them, Europe's mostly aging societies are going to be woefully unprepared for the future. That would have a definite negative impact on Europe's growth in the future.

This explains why, from the German perspective, the current battle over Europe's economic future is not at all about Greece. Nor is it about the debt issue or "austerity." The underlying challenge is much larger than reform issues in one small country or implementing proper budgetary controls.

Rather, it is about how to make Europe's economies more flexible – via structural reforms. If the German government has a mission or a vision, then it is to do its part to ready Europe for the 21st century.

A key ingredient in that regard is the need to reduce the public sector's share of national GDP. That, too, is a task that is adopted in direct response to considering the U.S. economic model and in view of the challenge from Asia.

Of course, none of these reforms can be formulated or applied in any cookie cutter fashion. Every country has its own peculiar mix of legacy issues to contend with, notably including Germany, which must continue on its own reform path.

Accordingly, contrary to an oft-heard argument in the international debate, very few decision-makers in Germany actually think that other countries ought to apply "the German model."

What is relevant about the German experience is the political dimension: If the continent's largest economy has accepted the need for reforms and acted on it, then it is wise for all of its European partner nations to do the same. The good news is that many have done so.

It is also appropriate for Germany to be clear about expressing the need for those nations who lag behind in the effort to do their homework – just as other nations point to Germany's weaknesses. Everybody needs constructive criticism and use it as motivation. The alternative, putting one's head into the sand by sticking mindlessly to ways of managing an economy that are plainly out of whack, is a recipe for disaster.

Advocating for the need for change in Europe due to global realities is the very antithesis of nationalism. Doing so also has nothing to do with any hegemonic attitude on the part of Germany. If anything, it is leadership by example.

And it certainly is no morality tale. It simply is the reality in which Europe has to operate – now that we have a truly global economy.

None of that means making short shrift of the balanced social model Europeans have come to appreciate. For example, Germany's approach to codetermination in industry – that is, involving the workforce in management decisions – has proven to be a pro-competitive force. Crucially, it has made German companies more nimble in reacting to global circumstances.

The German government's focus is neither on "Germanizing" the rest of Europe nor is it on "Americanizing" or, for that matter, "Asianizing" it.

Given that rigid labor market structures mainly hurt the young generations, EU member governments have the clearest – and democratically legitimized – incentive imaginable to shape up. Breaking up those outdated structures is nothing that is to be done "for the Germans" – but first and foremost for these nations' own sake, especially to improve the lot of young people in the crisis countries.

For that to happen, the key issue is to unravel the sweetheart deals among favored groups in society – usually older, usually from the establishment – that are no longer affordable. Nations who fight necessary change do so at their own peril.

Succeeding in that battle is the best way to ensure that Europe has a common, prosperous future and is positioned to contribute its share to global growth in decades to come.

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