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Reasons for the Successful German Economy: Analysis of Imports and Exports, Labor and Social Welfare

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Abstract: Germany's robust economy, labor market reforms, expansive social welfare initiatives, and the structure of its educational system collectively contribute to its status as an influential and appealing nation on the global stage. The paper analyzes the reasons for the booming German economy from three aspects: imports and exports, labor, and social welfare. The nation has witnessed substantial export growth, particularly compared to its European counterparts. This economic achievement can be attributed to elements like practicing wage restraint and capitalizing on the opportunities presented by China's market liberalization, resulting in a significant upswing in exports to China. The labor market in Germany has witnessed substantial enhancements since 2005, marked by the creation of jobs and a remarkable reduction in the unemployment rate. These transformations can be linked to labor market reforms initiated in the early 2000s, commonly called the Hartz reforms. Germany boasts an extensive social welfare system with historical roots dating back to the 19th century. This system encompasses various life facets, including healthcare, pension provisions, accident coverage, nursing care, and unemployment support. The adaptability of this welfare system is underscored as it remains open to ongoing negotiations and adjustments, particularly in response to demographic shifts.

Keywords: German economy, imports and exports, labor, social welfare

1. Introduction

This paper explores various crucial aspects of Germany, including its role as a global exporter, the dynamics of its labor market, and its extensive social welfare initiatives. Germany, often depicted as an industrial giant, distinguishes itself as one of the world's most open economies and unofficially holds the title of the "export world champion." This makes it an intriguing subject for investigating the effects of export and import shocks on the labor market. In this in-depth examination, we delve into Germany's complex economy, labor market, and social welfare. Germany's exceptional export performance is impressive, characterized by remarkable growth rates and a rapid recovery from economic crises. Besides, the transformation of the German labor market has led to the creation of millions of jobs and a significant reduction in unemployment rates. The paper will analyze the central to this transformation, "Hartz reforms", which were designed to address economic stagnation and promote workforce participation. Germany's social welfare system offers comprehensive coverage, including healthcare, pensions, accident insurance, and more. The refined social welfare system is also worth studying for the prosperous German economy.

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2. Imports and Exports

Germany is frequently represented in the media as an industrial behemoth [1]. It is also one of the openest economies in the world and informally known as the "Export World Champion," making it one of the most intriguing nations to research when determining how import and export shocks affect the labour market [2]. Individuals who began their careers in industries with higher export exposure saw bigger and longer-term income increases than those who had less export experience. Import rivalry has minimal overall influence on German employees' earnings, in contrast to export hazards. Furthermore, we find that the negative impacts of import competition are focused on workers in high-wage factories when we order the fixed effects on workers and companies from the projected cases [3].

Because Germany is so connected with the world's economy, German employment is heavily reliant on open markets and foreign trade: exports account for 27% of German employment, while manufacturing-related employment accounts for 56% [3]. Germany will remain the world's third largest exporter (after China and the United States) and third largest importer (following the United States and China) in 2021 [3].

Between 2000 and 2013, Germany experienced a remarkable surge in exports, with a growth rate of 154 percent [4]. In comparison, Spain saw a 127 percent increase, the UK 98 percent, France 79 percent, and Italy 72 percent during the same period [4]. Furthermore, Germany demonstrated an impressive ability to bounce back quickly in export growth after the 2009 financial crisis, a feat unmatched by any other European nation. As a result, many people consider Germany as a model for transforming from the "sick man of Europe" in the 2000s to a modern economic superpower.

Germany's remarkable export performance may be ascribed to its social partners' wage negotiating, which resulted in nominal pay and salary rises of only 19 percent between 2000 and 2008, the lowest among European Union nations [3]. In contrast, Spain experienced a 48 percent increase in nominal wages during the same period. Nevertheless, since 2009, nominal wages in Germany began to rise once again, increasing by more than 14 percent from 2009 to 2013, compared to a mere 4 percent in Spain [4]. Despite this significant increase in nominal salaries, exports from Germany recovered rapidly in comparison against other European nations, indicating that salary restriction alone could not account for its performance.

A further important aspect is the development of China. In comparison to other European countries, Germany looks to have profited more from China's opening. German exports to China nearly quadrupled in the five years following the global financial crisis, more than any of the others European nation. Additionally, there are a couple potential ways that China could have helped to European nations' export success.

To begin with, China may have been a significant procurement site for European those who export, decreasing the cost of production. Furthermore, China's fast modernization may have favored German exports owing to its superiority in equipment, vehicles, and other industrial items [5]. It is important to note that other European countries have strong manufacturing and transportation infrastructures, including France and Italy. As a result of Germany's export business strategy, China has demonstrated such a strong preference for German products on the world arena. To begin with, relocating manufacturing to nations with low salaries reduces costs and enables exporting businesses to go up on price. In addition, distributed leadership promotes product development among staff, enabling exporters to differentiate themselves on reliability. The fundamental assumption is that employees lower in the organizational structure of the company are more aware of market needs. Giving these employees additional decision-making power drives them to match product features to consumer desires.

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3. Labor

Since 2005, the German economy has established 2.5 million jobs, the majority of which have been part-time or on fixed-term or temporary contracts [6]. As a result of this job creation, the unemployment rate has dropped by 5 percentage points to a record low of 5.3%, according to the International Labor Organization's (ILO) definition of unemployment [6].

The "German miracle" of job growth is commonly linked to early-2000s structural labor market changes [6]. These reforms were implemented in response to a stagnant economy with little growth, a high unemployment rate (almost 10%), and a declining working-age population. The Hartz Committee, also known as the Committee for Modern Services in the Labor Market, recommended a set of reform directions in 2002, motivated by the philosophy of "Fördern und Fordern" (supporting and demanding) [7]. These changes were organized into four legislations aiming at increasing job search activity, providing incentives for the jobless to accept employment offers, and encouraging labour market participation, particularly among women and the elderly. Additional Hartz changes included limiting the term of eligibility for jobless benefits, eliminating early retirement possibilities, and cutting employer social security contributions [6].

These policies have had a significant influence on how the German labour market operates. According to evaluations of the Hartz reforms, they had a major impact on the labour market by enhancing the matching of labour supply and demand and generating greater incentives for employment. A combination of variables, including improved counseling, lower social security contributions on labour, and lower benefit income, is thought to have helped the return to work of persons who had previously been unemployed [6].

However, this improved job performance in Germany must be weighed against rising economic disparity and poverty. Between 2000 and 2005, the poverty rate increased significantly, rising from 12.5% to 14.7% [6]. This rise is especially noticeable among working people, and much more so among jobless people. This is due in part to structural impacts, since the Hartz reforms placed individuals in temporary or part-time occupations that did not raise them out of poverty.

Finally, notwithstanding the severity of the recession, the German labour market's relative resilience throughout the 2008-2009 crisis may be ascribed in part to the changes. The fundamental answer, however, is found in emergency measures made to increase flexibility in working-time arrangements (e.g., short-time employment and "time-saving accounts"). These reforms were made feasible by effective societal discussion and German firms' commitment to retain human capital in a highly competitive job market.

4. Social Welfare

The origins of Germany's state welfare system can be traced back to the industrialization era in the latter half of the 19th century and are closely associated with Otto von Bismarck, who served as the Reich Chancellor at that time. It was during his chancellorship in 1883 that compulsory health insurance was initially introduced [8]. Subsequently, legislative measures were expanded to establish the foundational principles of the welfare state. The Basic Law further codifies the welfare state's principle for the Federal Republic of Germany. According to the Basic Law, political leaders and society must engage in ongoing negotiations to adapt and modernise the welfare state's structure, driven in part by demographic changes [8].

Germany's social assistance system is one of the most complex and comprehensive in the world [9]. In the 1880s, Imperial Germany was a pioneer in creating social welfare benefits, becoming the first country to give health and accident coverage, labourers' and staff advantages and retirement savings, and miners' coverage [9]. Health insurance coverage is required by law in Germany. A vast

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range of medical services, including healthcare facilities, medical methods, and rehabilitation clinics, are available.

Though the government-sponsored healthcare system continues to cover a large number of Germans, workers earning more than a certain wage level or independent contractors may refuse public health insurance in favour of comprehensive private coverage that is as comprehensive as the government-sponsored strategy. When a person chooses their own insurance, it might be challenging to get back to the public programme. Individuals participating in an official health-care scheme may purchase additional private insurance. Employees and businesses contribute more than one-tenth of their income or salaries to public health coverage.

Germany's healthcare system is superb, as well as remote regions are adequately covered. Healthcare facilities are frequently administered by municipalities or religious groups, or as businesses for profit run by one or more physicians. The defeat of tuberculosis, which was formerly ubiquitous in Germany but is now rare, was a victory for the medical system.

Since the end of the Cold War, the comprehensive wellness system that existed in East Germany—where broad free health care, therapy, care for kids, pregnant, and retirement savings were funded by a required state insurance system—has been reorganised to align with Western Germany's multiple jobs, medical care, and retirement coverage systems. Otto von Bismarck's 1880s old-age pension system in Germany provided retirement benefits paid for by a combination of worker, company, and governmental contributions [9].

When longer lifespans and fewer babies born reduced the worker-to-pensioner proportion in the late twenties, the project, as conceived, proved unsustainable. A number of adjustments were adopted in the early twenty-first century to reduce the government's contribution of the pension cost while maintaining existing benefits through rising employee payments. Employees who chose to invest in personal or professional pension plans received tax advantages, and the retirement age was raised up to sixty-seven [10].

Moreover, Germany boasts one of the most extensive welfare systems globally. Similar to other advanced democracies, the allocation of funds to the welfare state constitutes the largest single component of public expenditure. In 2020, expenditures on the welfare state totaled approximately 1.19 trillion euros, equivalent to 33.6% of the GDP [8].

Various forms of fundamental insurance covering health, pensions, accidents, nursing care, and unemployment create an intricately woven safety net, safeguarding the populace against threats to critical aspects of their lives. This comprehensive support system encompasses a basic income for retirees and individuals permanently unable to work, in addition to tax benefits like family allowances. Families receive monthly child benefits, and the federal government's coalition agreement includes a commitment to enshrine children's rights in the Basic Law.

The pension reforms implemented in 2014 significantly enhance the well-being of elderly citizens [8]. These reforms introduced features such as the entirely retirement benefits eligibility from a minimum of 63 and the "mother's pension," that recognizes the contributions of mothers in developing kids. Women that brought up kids born beforehand 1992 were previously unable to access the childcare support available to today's parents, limiting their opportunities in the workforce [11]. The mother's pension acknowledges their pivotal role in child-rearing. Since 2014, approximately 9.5 million women (as well as a small number of men) have seen their pensions increase by over 300 euros annually [8]. Starting from July 1, 2014, individuals covered by the pension insurance scheme who have contributed for 45 years can retire at the age of 63 without deductions to their pension [8]. An essential pension scheme was introduced in early 2021, benefiting approximately 1.3 million people, with many being women, who have contributed to the pension insurance scheme for at least 33 years [8].

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5. Conclusions

To sum it up, this thorough exploration of Germany's economic, labour market, social welfare, and educational dimensions highlights a country characterized by impressive resilience and adaptability. Germany, often lauded as the "Export World Champion," consistently showcases its global prowess, marked by remarkable export growth and a unique ability to recover from economic challenges. Key contributors to this success include measures such as wage restraint and strategic partnerships with China.

The labour market within Germany has undergone significant enhancements, exemplified by the generation of millions of jobs and a substantial decrease in unemployment rates. These improvements find their roots in the influential Hartz reforms, which were implemented to address economic difficulties.

Germany's robust social welfare system, deeply ingrained in its historical development, offers comprehensive coverage across various aspects of life, ensuring a safety net for its populace. These programs remain adaptable, subject to ongoing negotiations aimed at addressing evolving demographics and societal requirements.

In conclusion, Germany's diverse strengths across these realms reaffirm its status as a dynamic and influential nation, embodying principles of adaptability, innovation, and social welfare that have positioned it as a prominent player on the world stage.

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