



KEY FINDINGS

# Productivity, Performance, and Progress

## Germany in International Comparative Perspective



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### The Right Path?

While Germany is trying to weather the effects of the current global slowdown and prepare itself to take advantage of a global rebound, several questions arise: Is the country's current economic model the best to generate sustainable growth? Should Germany remain so dependent on exports as its engine of growth? Or should it pay more attention to productivity and job creation in the domestic economy, especially in services?

### What's Going On in Germany?

Germany's economic performance is suffering, when compared to its neighbors, because of a lack of jobs – especially highly productive ones. Germany's overall productivity performance has been mediocre in recent years compared to the United States and several other European countries. Even in its frequently hailed export-oriented manufacturing sector, Germany lags productivity growth in the United Kingdom, Sweden, and the United States and has done no better than France and the Netherlands. In market services, Germany shows, by far, the worst performance among its peers.

Since 1995, both Europe and the United States have generated about two-thirds of their GDP growth by labor productivity and about one-third by an increase in working hours. In Germany, on the other hand, GDP growth was almost exclusively generated by productivity, which slowed down dramatically in recent years (to only 1.2 per cent in the market economy between 2000 and 2007). And, while

new jobs were created in the services sector of the economy during the early 2000s – overall, total working hours declined.

The current recession doesn't make things easier. Not only is it more difficult than ever to create productive jobs, one also needs to think hard about which jobs to cut and which to save to ensure sustainable post-recession growth and competitiveness. Without better productivity growth and the creation of more highly-productive jobs, Germany's standard of living is likely to be threatened as prosperity and international competitiveness erode.

### Why Productivity Matters

Prosperity – economic growth, social development, and improvements in living standards – depends on two factors: productivity, specifically labor productivity, measured as output per hour worked, and labor input growth, measured as total working hours. The bad news for Germany – newly created jobs have been, to a large extent, low productivity ones, especially in the service sector. Low productivity jobs mean lower compensation, lower demand, and hence fewer opportunities for improving living standards. By contrast, more productive

jobs are the primary mechanism by which the gains from growth can be distributed across the economy – to consumers through lower prices, to workers as higher rewards, and to businesses by providing the resources for new investments – creating a sustainable growth path and a higher living standard.

#### Since the mid-1990s Germany has underperformed on virtually every growth performance indicator

Average annual growth rates of output, income, productivity, and hours worked, 1995-2008

	GDP	GDP per capita	GDP per working hour	GDP per worker	Total hours worked
Germany	1.5	1.4	1.5	0.9	0.0
France	2.1	1.6	1.4	1.0	0.7
Netherlands	2.7	2.1	1.3	1.2	1.4
Sweden	2.8	2.7	2.1	2.0	0.7
United Kingdom	2.7	2.3	2.1	1.8	0.6
United States	2.9	1.9	2.0	1.8	0.8
EU-15	2.2	1.9	1.3	1.0	0.9

Source: The Conference Board

## Leading Out of the Downturn

While there is no silver bullet for creating high-productivity jobs, the strategies, attitudes, and policies of business, workers, and government do create the culture and conditions that allows such job creation to flourish – or die. Strikingly large differences exist between countries' ability to simultaneously raise productivity and employment. But the final word is that a “receptive” economic environment is the key to translating innovation into highly productive jobs that fuel sustainable economic growth. And it is here that Germany lags behind many of its peers.

For example, Sweden has grown productivity about twice as fast as Germany between 1995 and 2008, combined with a small, albeit significant, increase in labor inputs (0.7 percent) over the same period (i.e., more people, working more hours in more productive jobs). Since 1995, the Netherlands have increased working hours at twice the Swedish rate, but productivity growth fell behind that of Sweden (though still ahead of Germany) – with people working more hours, but not at particularly productive jobs.

## Outlook and Action: Investment in Innovation and Intangibles

Productive jobs require investments in innovation. Hard investment in information and communication technology (ICT) helps, particularly in services, but it is not sufficient. Intangible investments – organizational improvements, technological know-how, marketing and brand-building, and knowledge management – which are the key to innovation and productivity growth – are weak in Germany, when compared with France, the United Kingdom, and the United States. At only 7 percent of GDP in the market sector of the econ-

omy, intangible investments are low in Germany compared with other Northwest European countries (8 percent in France, 10 percent in the UK) and the United States (over 12 percent of GDP, based on 2004 data).

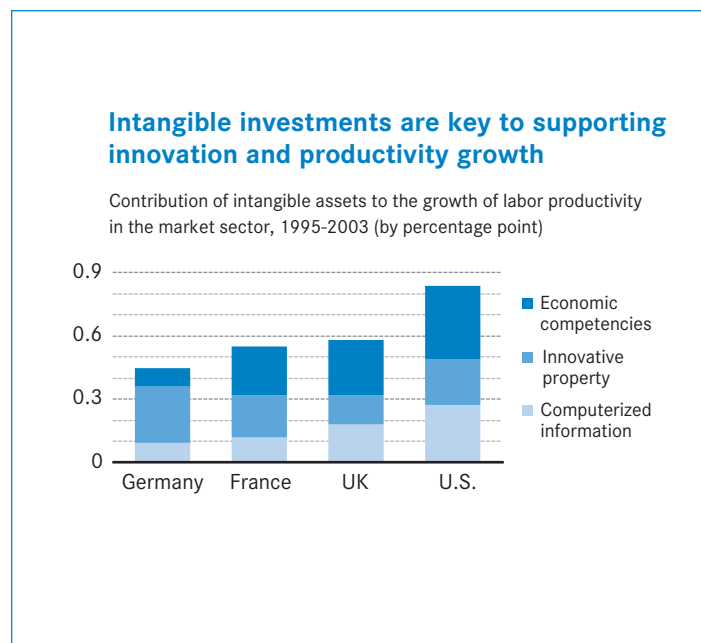
Intangible investment also reflects some of the key human capital inputs required to sustain innovation and productivity growth, primarily through education, training, and increased skills of workers. And they reflect the overall process of business and societal innovations, including the improvement of organizational and management processes. These create a competitive market environment that rewards the development of new products, services, and ways of doing business.

## Incentives for Investment Can Be Created

Some factors that may threaten the creation of productive jobs and productivity growth, such as increased competition from low-wage economies and the creation of more relatively low-productive service jobs, are difficult to change and may not be under the direct control of business leaders and policy makers.

Ultimately, however, improved productivity depends on attitudes and policies toward international competitiveness, product market development, labor market coordination and flexibility, and other regulatory changes. Better incentives for individuals, business, and government for investing in information and communication technologies,

human capital, and other kinds of intangible capital can make a large difference in raising the productivity of jobs – and ensuring the long-term prosperity and competitiveness of a nation.



To order the Research Report

*Productivity, Performance, and Progress: Germany in International Comparative Perspective* or more copies of these Key Findings, visit [www.conference-board.org](http://www.conference-board.org) or call 212 339 0345.



The Conference Board  
845 Third Avenue, New York, NY 10022-6600

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These Key Findings are based on the research report *Productivity, Performance, and Progress: Germany in International Comparative Perspective* which was developed by The Conference Board and commissioned by the Friedrich-Ebert-Stiftung.

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**The Conference Board, Inc.**  
845 Third Avenue  
New York, NY 10022-6600  
United States  
Tel +1 212 759 0900  
Fax +1 212 980 7014  
[www.conference-board.org](http://www.conference-board.org)

**The Conference Board China**  
Beijing Representative Office  
7-2-72 Qijiayuan,  
9 Jianwai Street  
Beijing 100600 P.R. China  
Tel +86 10 8532 4688  
Fax +86 10 8532 5332  
[www.conference-board.cn](http://www.conference-board.cn) (Chinese)  
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**The Conference Board India**  
6/F, Vaswani Mansions  
120 Dinshaw Vacha Rd.  
Churchgate  
400020 Mumbai  
India  
Tel: +91-22 67464217  
Fax: +91-22 67464001  
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**The Conference Board Europe**  
Chaussée de La Hulpe  
130, box 11  
B-1000 Brussels Belgium  
Tel +32 2 675 5405  
Fax +32 2 675 0395  
[www.conference-board.org/europe.htm](http://www.conference-board.org/europe.htm)

**The Conference Board Asia-Pacific**  
22/F, Shun Ho Tower  
24-30 Ice House Street, Central  
Hong Kong, SAR  
Tel +852 2804 1000  
Fax +852 2869 1403  
[www.conference-board.org/ap.htm](http://www.conference-board.org/ap.htm)

**The Conference Board of Canada**  
255 Smyth Road  
Ottawa, Ontario K1H 8M7  
Canada  
Tel +1 613 526 3280  
Fax +1 613 526 4857  
[www.conferenceboard.ca](http://www.conferenceboard.ca)