

Growth Coalitions Within a Corporatist Setting:

How Manufacturing Interests Dominated the German Response to the Energy Crisis

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Germany and the energy crisis

Di Carlo D, Hassel A and Höpner M (2024) Growth Coalitions Within a Corporatist Setting: How Export Interests Dominated the German Response to the Energy Crisis. *Politics & Society, forthcoming*

Höpner M, Di Carlo D, Hassel A (2024) Shielding competitiveness: Germany's wage policy during the inflation shock years in comparative perspective. *Transfer, forthcoming*

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Growth models and regimes in CPE

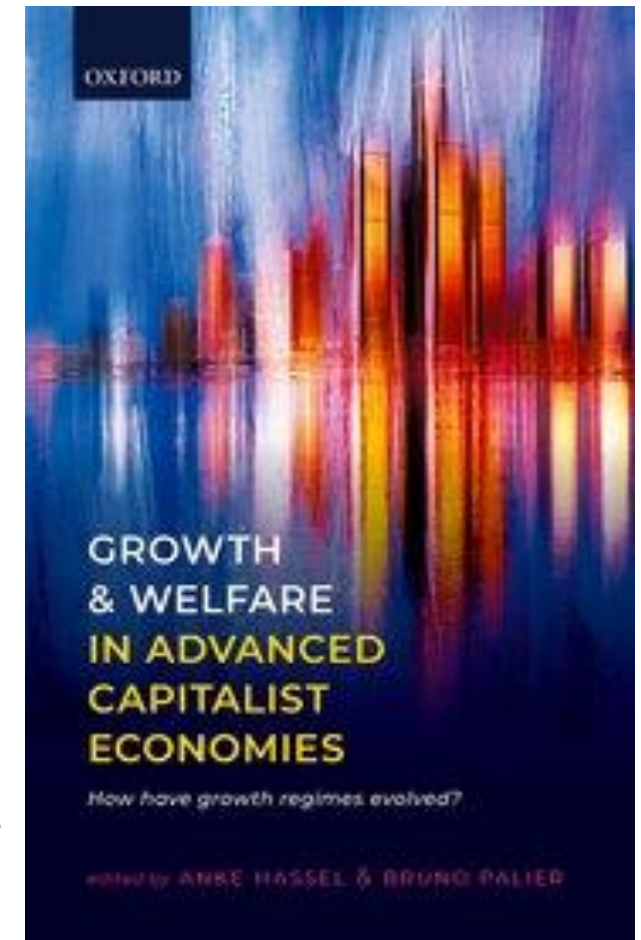
Growth and welfare regimes

Institutional configurations linking economic institutions, growth models and welfare regimes

Five different growth regimes: Germany is a manufacturing export-led growth regime (in contrast to export-led growth regimes focusing on dynamic services or FDI)

Growth coalitions support government strategies to protect growth regime

Governments use welfare policies to stimulate growth (i.e. privatisation of pensions to stimulate financial markets)



Our interest: the politics of growth regimes

Argument

Cross-class sectoral producer/growth coalitions aim to protect key economic sectors from economic distress

Sectoral growth coalitions build on corporatist structures (highly organized employers and trade unions)

These growth coalitions are increasingly less willing or able to take wider societal considerations into account

How has Germany shielded the export sector during the energy crisis

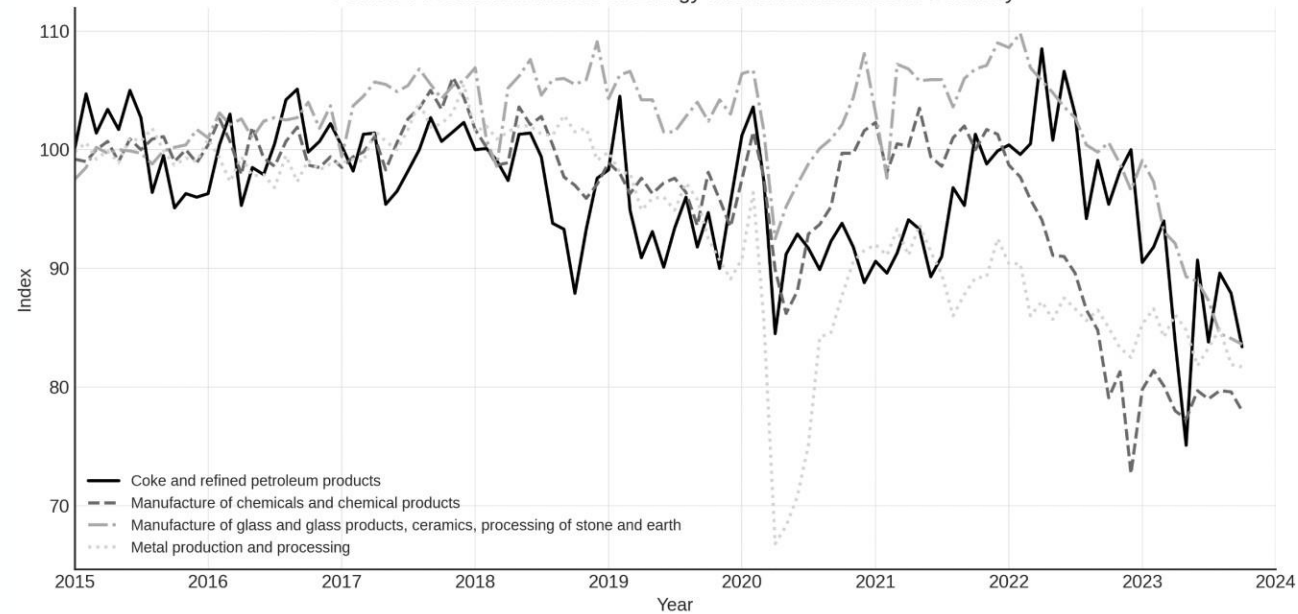
3-tiered strategy to shield :

- 1.reduce firm's energy input costs by subsidising energy*
- 2.internalise cost-push inflation by avoing spill overs onto the wage-setting arena*
- 3.shield ailing firms via massive state aid under the new EU regulatory flexibilities*

Germany continues to double down on its export-led growth strategy

(interesting in the context of Nordic countries and the Netherlands)

Panel A: Production Indices of Energy-Intensive Industries in Germany



Panel B: Producer Price Index of Relevant Energy Sources



The challenge of the energy shock

DE highly vulnerable to the energy crisis due to:

Over-reliance on Russian gas imports (60% of domestic consumption)

Over-reliance on manufacturing sector and energy-intensive industries (5 sectors accounting for 80% of total industry energy use)

Corporatist responses

The high level meetings of the «concerted action group» in the chancellery
July and September 2022

Rainer Dulger (BDA)
Yasmin Fahimi (DGB)

Expert Commission on Gas and Heat
Autumn 2022

Michael Vassiliadis (IG BCE)
Siegfried Russwurm (BDI)
Veronika Grimm (SVR)

Policy networks and sectoral corporatism

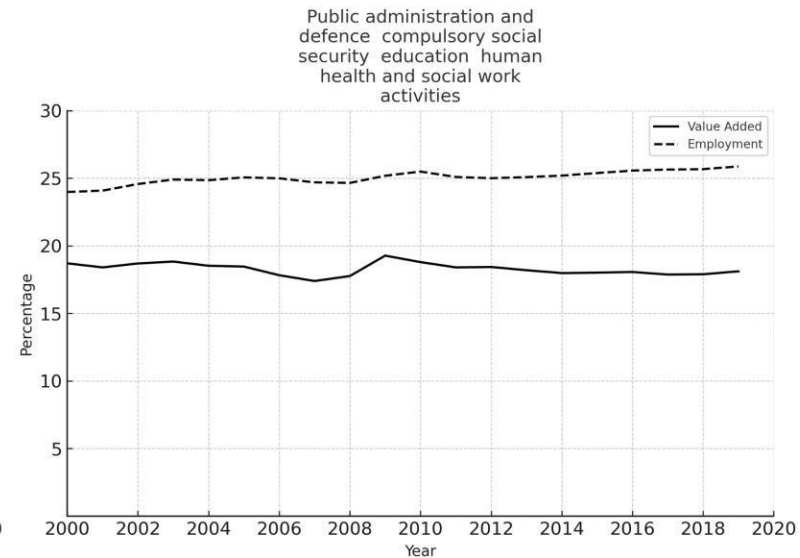
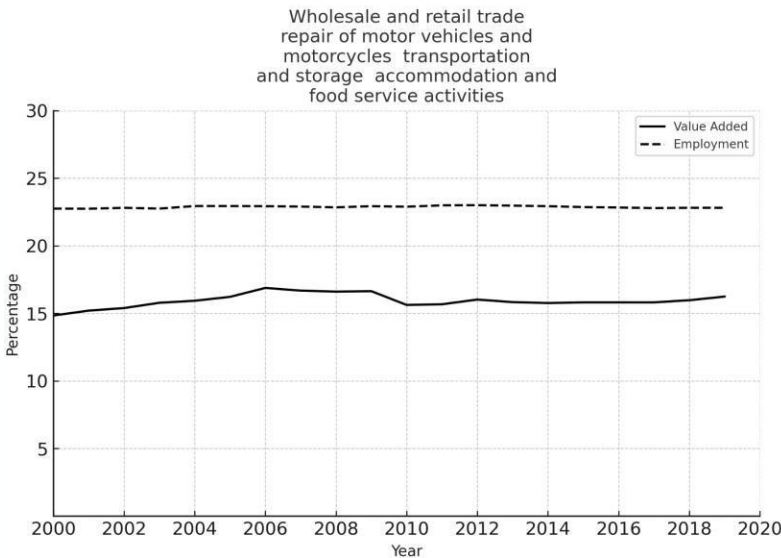
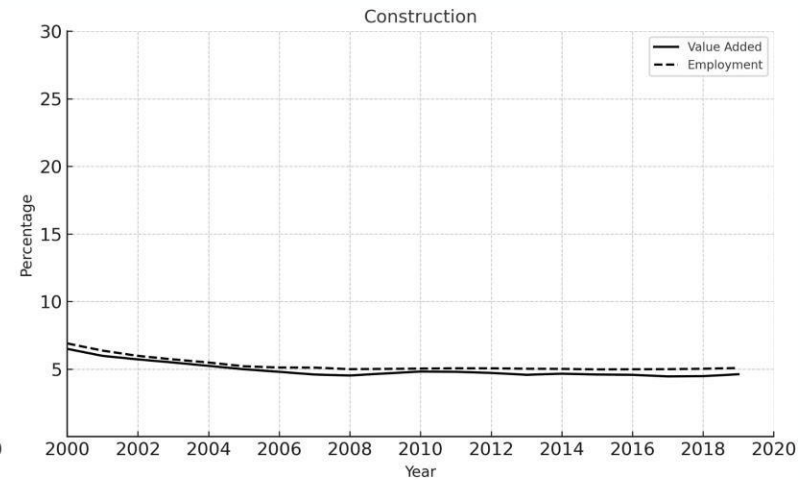
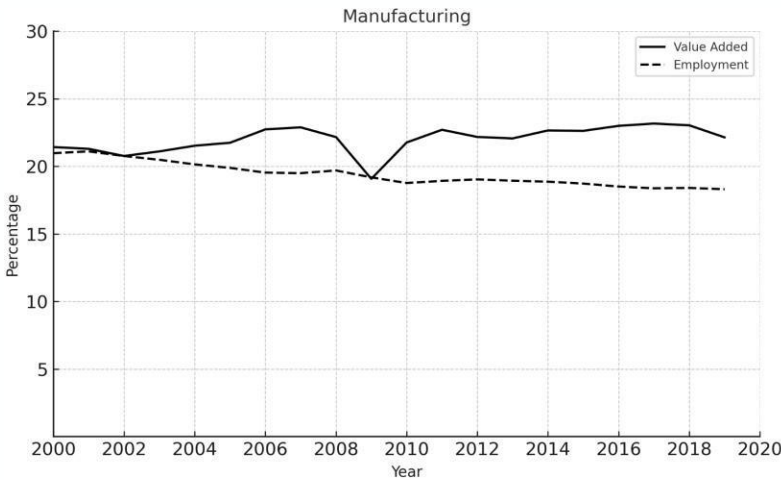
Sectoral corporatism is unevenly organized:

Strong representation by industrial organisations, supported by

- Union representation in large firms
- Systematic linkages to representation in parliament

Close interaction within sectoral economic policy networks linking key representatives of the metalworking and chemical sectors to the federal government and the state bureaucracy

Three factors behind privileged access



Economic preponderance of the export sector in the manufacturing based export-led growth regime

Greater interest coherence and sectoral organizational capacity of the export sector

Political linkages and revolving doors

Concerted Action group

Subsidise sectoral wage restraint and stabilize firms' labour costs

One-off payments at firm-level of inflation premia (up to €1.400) (initiated by chemical sector)

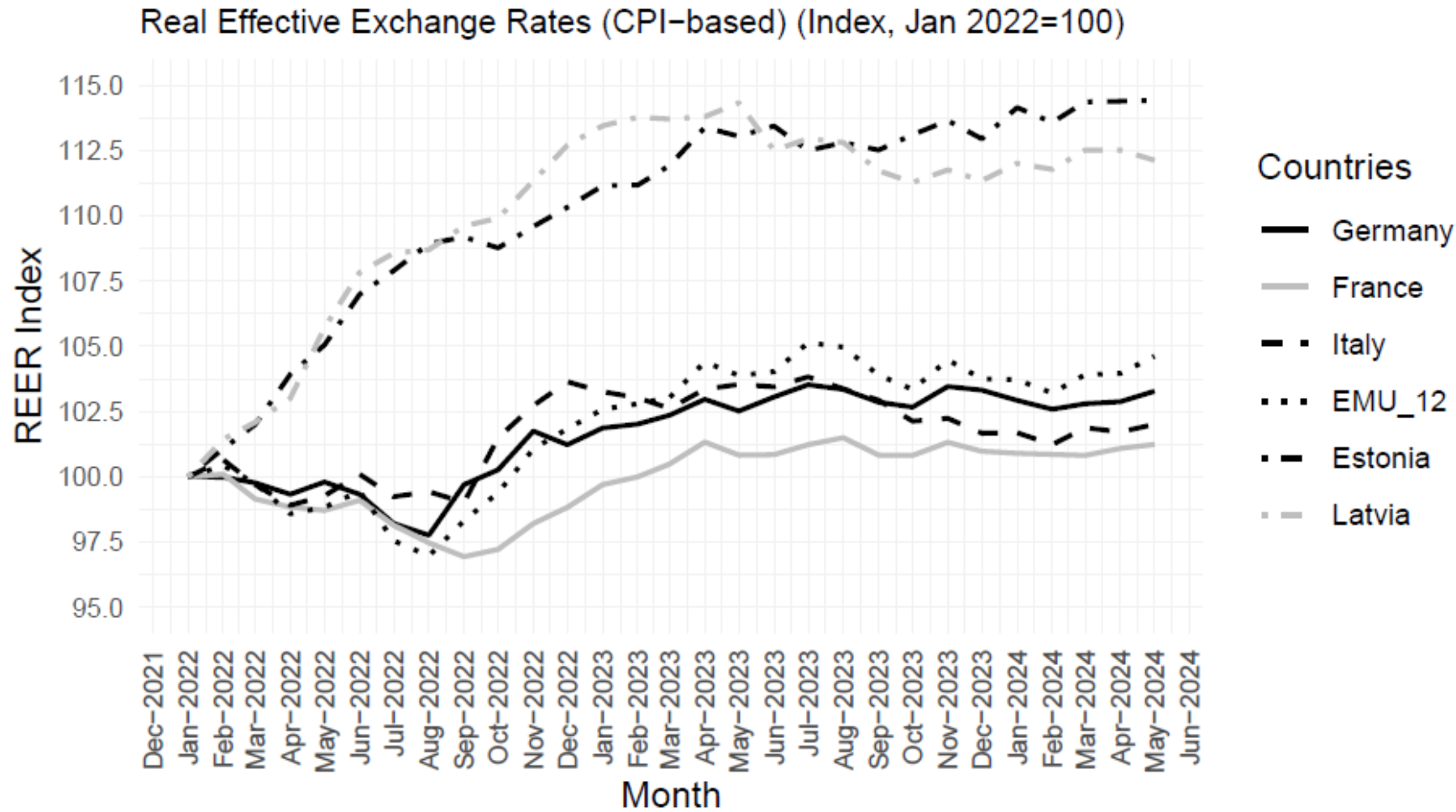
Adopted by the government as a solution for other sectors, incentivised by federal tax cuts; spread across the other sectors

Other ways to dampen wage agreements: zero-months, longer duration of agreements

Germany among the countries with the highest loss of real wages (bar Italy)



	Inflation (%)			Nominal wage increases (%)			Real wage increases (%)		
	2021	2022	2023	2021	2022	2023	2021	2022	2023
Austria	2.8	8.6	7.7	0.4	6.1	6.9	-2.4	-2.5	-0.8
Belgium	3.2	10.3	2.3	1.1	6.0	8.5	-2.1	-4.3	6.2
Estonia	4.5	19.4	9.1	6.2	9.0	11.8	1.7	-10.4	2.7
Finland	2.1	7.2	4.3	2.6	2.7	3.4	0.5	-4.5	-0.9
France	2.1	5.9	5.7	1.5	3.9	3.7	-0.6	-2.0	-2.0
Germany	3.2	8.7	6.0	1.0	4.2	4.6	-2.2	-4.5	-1.4
Greece	0.6	9.3	4.2	0.5	5.5	5.9	-0.1	-3.8	1.7
Ireland	2.4	8.1	5.2	4.1	4.0	4.6	1.7	-4.1	-0.6
Italy	1.9	8.7	5.9	-1.2	2.9	1.1	-3.1	-5.8	-4.8
Latvia	3.2	17.2	9.1	6.7	7.1	11.6	3.5	-10.1	2.5
Lithuania	4.6	18.9	8.7	10.7	13.3	12.2	6.1	-5.6	3.5
Netherlands	2.8	11.6	4.1	0.2	4.1	6.8	-2.6	-7.5	2.7
Portugal	0.9	8.1	5.3	1.3	4.0	5.5	0.4	-4.1	0.2
Slovakia	2.8	12.1	11.0	5.5	6.2	9.5	2.7	-5.9	-1.5
Slovenia	2.0	9.3	7.2	5.6	4.6	10.4	3.6	-4.7	3.2
Spain	3.0	8.3	3.4	0.3	3.1	4.8	-2.7	-5.2	1.4
Mean	2.6	10.7	6.2	2.9	5.4	7.0	0.3	-5.3	0.8



Expert commission on gas and heat

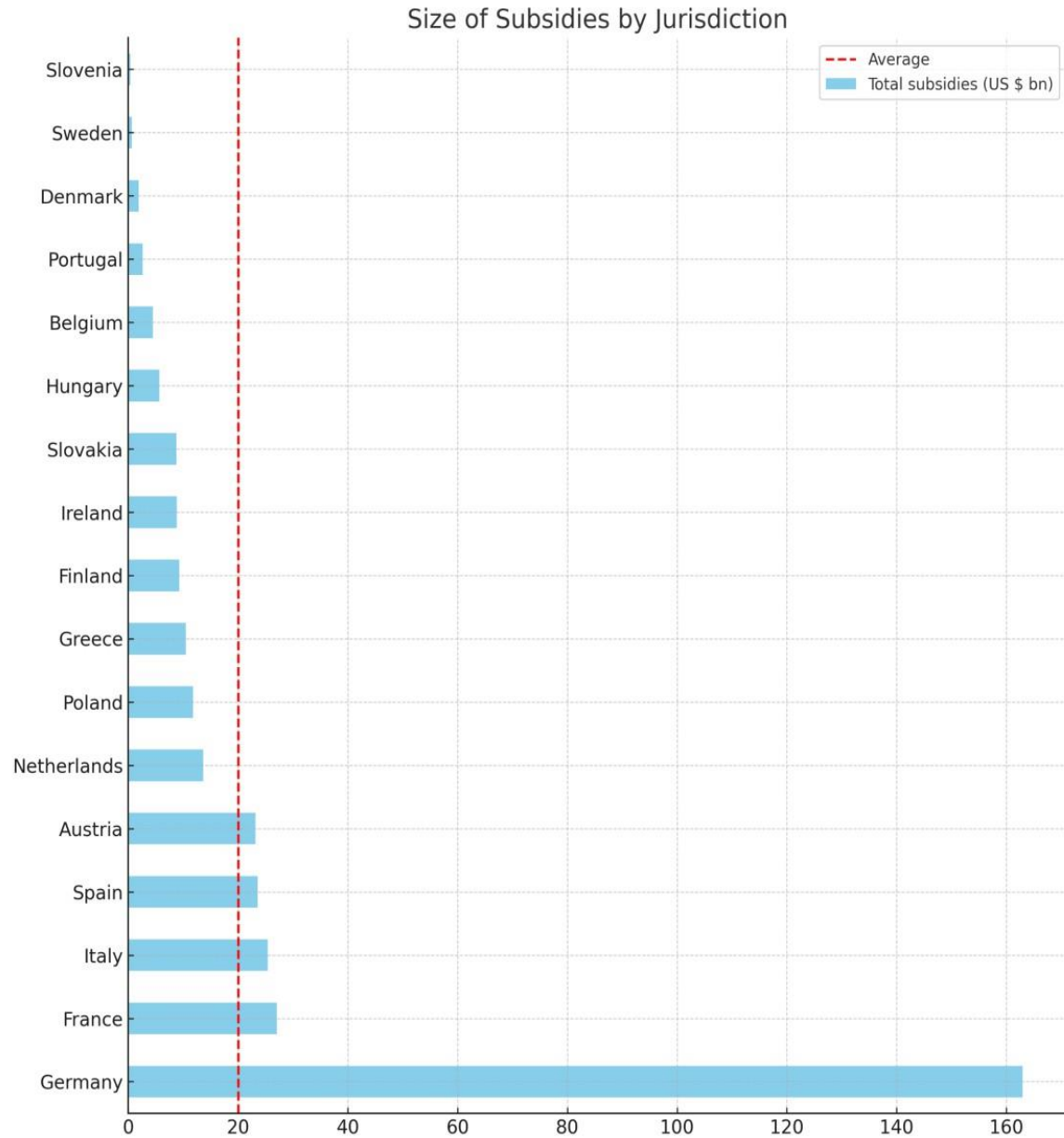
Composed of energy economists, industry representatives, unions and civil society groups

Gas price ceiling for consumers budget up to €200bn; about €30bn were used

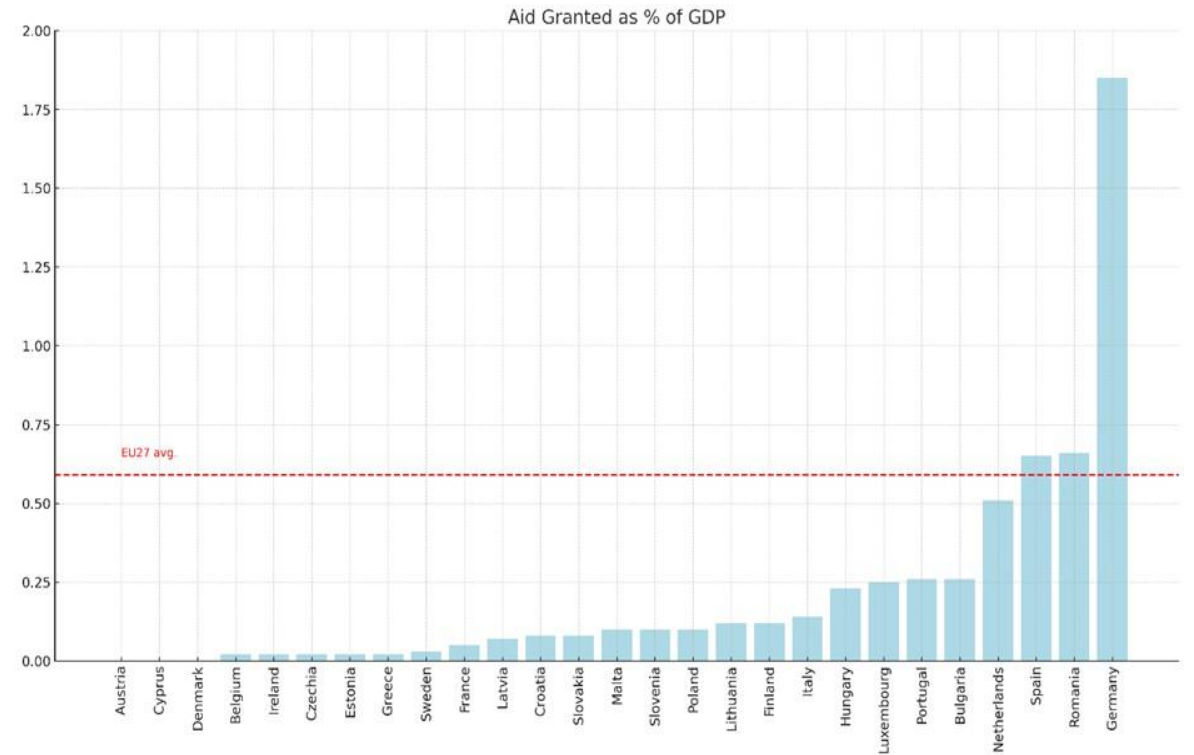
Minority vote from verdi



State subsidies during 2023
(NIPO dataset, includes hidden liabilities)



State aid granted under the TCF during 2022
(EU commission)



Measure description	Gross fiscal cost	Support type	Mechanism	Main beneficiarie s	Comment
Grant programme for energy intensive firms	€5bn	Income support (energy-related)	Budgetary transfer	Firms: Manufacturing (energy intensive)	Part of the 3 rd Relief Package. Active retroactively to Feb. 2022
Pump subsidies through a temporary rebate	€3.15bn	Energy price support	Reduced, regulated, or capped marginal energy prices	All energy users	-
Reduction of VAT on gas prices	€2bn	Energy price support	Tax measures	All energy users	Costs are estimated at €bn in 2022, €6.5 bn in 2023 and €2.8 bn in 2024
Gas price brake: discount on the gas and heat bill to subsidise 80% of previous gas consumption at a reduced price for households and SMEs and 70% for industrial clients	€56bn	Income support (energy-related)	Reduced, regulated, or capped average energy prices	All energy users	Caps and conditionality for enterprises are based on EU state aid rules (TCF). Gas and heat suppliers waive the monthly upfront payment in December 2022 and get reimbursed by the government. Preliminary end date is Dec 23; federal government may extend duration until Apr 24 if EU TCF is extended. Fiscal costs depend on further development of energy prices.
Yearly increase in CO2 prices in heating and transport sector from 2022 to 2023 by 5 Euros has been postponed for one year	€4.4bn	Energy price support	Tax measures	All energy users	
Continuation of the reduction of VAT on gas prices	€6.5bn	Energy price support	Tax measures	All energy users	Costs are estimated at €2bn in 2022, €6.5bn in 2023 and €2.8 bn in 2025
Electricity price brake: discount on the electricity bill to subsidise 80% of previous electricity consumption at a reduced price for households and SMEs, and 70% for industrial clients	€43bn	Income support (energy-related)	Reduced, regulated, or capped average energy prices	All energy users	Caps and conditionality for enterprises are based on EU state aid rules (TCF). Preliminary end date is Dec 23; federal government may extend duration until Apr 24 if EU TCF is extended. Fiscal costs depend on further development of energy prices
Extensions of tax exemptions on energy for energy-intensive firms	€1.7bn	Income support (energy-related)	Tax measures	Firms: Manufacturing (energy intensive)	Part of the 3 rd Relief Package. The tax exemption was supposed to fade out at the end of 2022 and is now extended for one more year
Continuation of the reduction of	€2.8bn	Energy price	Tax measures	All energy	Costs are estimated at €2bn in 2022, €6.5 bn in 2023

Conclusions

The energy crisis as entry point into the politics of the German export-led growth regime

Germany not corporatist in the classic sense

Germany was highly vulnerable to the Russian cut-off of energy supplies to Europe

During the energy crisis, the «traffic light» coalition in government negotiated carefully the strategy of economic adjustment with the export sector social partners

- Facilitated Wage restraint
- Organized price ceilings for gas and electricity with a focus on industry
- Used substantial state aid.

Based on sectorally organized growth coalitions, which follow high contribution to value added

From corporatism to growth coalitions

- Corporatist interest representation was a mode of macro-economic steering
- Centralized decision making for internalizing negative externalities
- Growth coalitions do not consider wider economic or social effects
- Erosion of corporatist interest representation resembles much more special interest groups
- There is no social or economic legitimacy to have special interest groups run government commissions responsible with large distributive effects