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CURRENT AFFAIRS

**ANALYSIS
NEUE LABOUR**

TRANSCRIPT OF A RECORDED DOCUMENTARY

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TAYLOR: With a fragile economy, falling living standards, austerity biting, and ever greater competition from Asia, British politicians are in search of a new model of growth. But where should they look for lessons in success? In a recent speech to the Social Market Foundation, Labour leader Ed Miliband had his own suggestion.

MILIBAND: The rise of China and India is possibly the single most striking feature of the 21st century. Now which European country sells most to China? It's not countries reliant on low wages and low skills, as you might suspect or expect. It's Germany - winning on the basis of high value production, where quality counts. And that is part of the new economy we need to build for the 21st Century for Britain.

TAYLOR: Labour's leader isn't the only person looking enviously across the North Sea. Hardly a week seems to go by without politicians or think tanks using Germany's success as the basis for advocating a new policy. Yet, comparatively few Brits have actually spent much time in Germany. We admire, but do we really understand?

It's two decades since Stewart Wood starting writing about what makes the German system tick, and today - as one of Ed Miliband closest advisors - his enthusiasm remains undimmed.

WOOD: Firstly what's often called a coordinated model of capitalism - the idea that government, employers, banks, trade unions are committed to a model of competitiveness, which is based on high skills, high value added production, fundamentally oriented around exports. Secondly, a long-termism in the way in which bank company relations are structured, in the way that industrial relations works, and in relationships between the universities and the productive part of the economy. And then thirdly what you might think of as a model of bargain adjustment in the face of shocks that you cannot anticipate. Whether they are reunification or the collapse of financial services, adjustment is done in collaboration between organised social partners and government in a coordinated way.

TAYLOR: Conservative backbenchers and senior Liberal Democrats have also been exploring German strengths. As someone who's worked in academia, think tanks and as a Downing Street advisor, I know policies aren't as easy to import as cars and machine tools. Can we, I wonder, pick and mix from a country with a very different history and culture? Indeed, does the UK have strengths the Germans could come to envy?

Since the 19th Century, when Germany seemed at one bound to catch up on our own industrial revolution, every generation has its own take on what we should learn from German success. Gisela Stewart, German born Labour MP.

STUART: I've got a slight sense of déjà vu here. I came to England in 1973/74 during the three day week. Germany had the economic miracle; Britain had the three day week. And about every 10 years another set of people discover - and have done so ever since Prince Albert - that what we really need to do is apprenticeships, value traditional skills, have involvement between schools and industry, and if only we all were like the Germans we'd be alright.

TAYLOR: Looking for lessons from abroad politicians tend inevitably to be most keen on ideas that fit their own values. A recent Conservative back bench pamphlet praised new flexible employment rules in Germany - but it was less vocal about the system of partnership between employers and trade unions which negotiated those changes. Before taking office New Labour flirted with this system of industrial partnership - or stakeholder capitalism as Tony Blair termed it - but it got cold feet when opponents accused the Party of going back to seventies style corporatism. Son of New Labour, Will Straw, has been exploring industrial strategy for Labour's favourite think tank, the IPPR.

STRAW: Because of the stagnation felt in the UK economy during the 1970s, I think we threw the baby out with the bath water on industrial policy. I think we thought that the corporatist structure that we had that was in some ways quite similar to Germany's at that time was absolutely the problem with the British economy, and so we did away with that in our run to the hills for a sort of more liberal approach to economics. I mean that's probably the underpinning difference between the UK and Germany, certainly in the last thirty years or so. It's partly because of the nature of their having greater levels of worker representation on boards, a much more consensual approach to business success in Germany, so they take these longer term decisions. Partly because of what some people see as the financialisation of the British economy, the focus on financial services, we've been driven much more into short-term returns.

TAYLOR: A few years ago when the British laissez faire model powered by financial services and consumer credit was steaming ahead many in the UK said the German model of co-ordination needed to change. But things look very different now. The Germans avoided the worst excesses of the bubble and now they are emerging strongest from the crisis. Bob Bischof is a German businessman with several decades' experience of working in the UK. He told me about the German insurance system for supporting the retention of workers during downturns - which enabled the boss of the British based firm JCB, for example, to keep all his workers in Germany in recent years, while sacking a fifth of his staff in Britain .

BISCHOF: It's called short-term working, Kurzarbeit, and it means that if you only go to work for three days during a cyclical downturn you can claim for the other two days for your people to get paid. For instance, JCB in Germany during the recession which hit Germany just as much as Britain, 6% of GDP, didn't shed any workforce in his German plant and he had to lay off about 20% in his British plant.

TAYLOR: Resilience in the bad times and restraint in the good have served the Germans well. From apprenticeships to industrial partnership, from manufacturing exports to the strength of medium sized, often family owned, firms there seems much to admire. I've extolled German virtues for some time, but I haven't visited since a school trip forty years ago. So to find out if the German model really is that good and if it is what we might learn, I travelled to Bob Bischof's birthplace, Hamburg, to see for myself.

(Fx/chat) Blohm and Voss

RISSWICK: It was built up...

FRANZ: in the 1920s round about. Dockyard School they call it.

TAYLOR: So your apprenticeship scheme's nearly 100 years old?

RISSWICK AND FRANZ: Yes. Ja. *(Taylor laughs)*

TAYLOR: Our first stop was Blohm and Voss, a company with a hundred and fifty years history of building ships on the banks of the Elbe. Head of training Lutz Risswick showed me round a large and well equipped block dedicated solely to the much sought after apprenticeships at the firm.

Walk into this workshop with about ten apprentices working very hard by the look of things on laptops with a lot of kit around, obviously doing work at a very high level. I'm here with Matthias Franz, an apprentice here. These apprentices, did they all start at the same age as you, or have some of these started younger or at different levels of qualification?

FRANZ: There are different levels, so some start with 16, I think, and some also with 19, 20.

TAYLOR: And they'll all be ... all for three years?

FRANZ: Three and a half years.

TAYLOR: A three and a half year apprenticeship. And Matthias, this is a more ... this is the kind of workshop I'd associate with more heavy industry.

FRANZ: Yes.

TAYLOR: What's going on here?

FRANZ: They learn how to bend tubes and pipes and ...

TAYLOR: We were earlier in a room where people were on computers, quite high-tech. In here, I guess in a way people are doing things they've done for hundreds of years in the industry, which is you know bending metal?

FRANZ: Yes both you have to know. It depends on the trade.

TAYLOR: In Britain there is still an idea that if you are good with your brain and if you're good with your hands, these are separate things.

FRANZ: It's not so.

TAYLOR: You don't have that idea at all?

FRANZ: It's not separate. You can be intelligent and also can work with your hands.

TAYLOR: The apprenticeship scheme is overseen by a joint committee of managers and workers. There is shared commitment that every trainee receives a broad manufacturing education as well as classroom based learning. Matthias came from a grammar school and he turned down university to be a Blohm and Voss apprentice, and his ambitions reflect the German ideal of shop floor to top floor.*(segues to)*

(to Franz) You would expect managers here to be able to come here and understand the processes enough because some of them will have been apprentices?

FRANZ: Yes.

TAYLOR: And you yourself could end up running Blohm and Voss?

FRANZ: Of course. *(laughter)*

TAYLOR: I've just finished my visit to Blohm and Voss, which was fascinating. I mean this is the elite of German industry, but nevertheless some of those themes that I was hearing in London from people who want to learn from Germany - they were in our conversations - the emphasis put on apprenticeships, just the pride in industry that exists here. And then finally just this notion from Matthias there in his blue overalls showing me round the workshops that it is perfectly possible for him that he will end up running this firm.

I was impressed by Matthias and his firm but the best UK manufacturing companies too have strong apprenticeship schemes. So how about newer industries? When, a few years ago, Government and employers noticed the global growth of the creative sector, the typically German response was to agree a new strategy to develop home grown firms. Economic power has always been more dispersed in modern Germany than the UK. But now Hamburg isn't just an established industrial centre. It's also Germany's creative media capital. And I discovered that last year's apprentice of the year works in one of these new firms.

BOCK: Hi, I'm Michael. I'm 23 and I'm apprentice and I am working for FineTunes, which is a digital distribution service for independent music.

TAYLOR: While in the UK we often see apprenticeships as for the non-academic, 23 year old Michael Bock switched from doing a law degree to become a trainee at FineTunes, a fast growing digital distribution company. He sees his apprenticeship and what he learns at training school as relevant not just to his current job but to a successful career in the digital economy.

BOCK: In school they are focused and you are targeted to the things you need to learn. Their goal is to make you useful for the company and that you can use the knowledge you get there wherever you go.

TAYLOR: Michael's boss and company founder Oke Goettlich admits he found it difficult at first to persuade conservative German banks to invest in an industry they didn't really understand. Like many entrepreneurs, he had to rely on family and friends to get him started. But despite being a young entrepreneur in a new sector, he stands by the established principles of the German model of industrial co-ordination.

GOETTLICH: The people in other countries always think oh the very strong German economic monster is somehow there. It's traditional and old economy values which are, I think, not bad because they are really conservative in one way, but of course with the potential problem of not realising some future shifts.

TAYLOR: It sounds to me as though you think it is possible, however, to put together this new sector with its highly diverse business model, but with the traditional German values; that you can bind those two things together. You don't have to throw out what's best about the German model. It can evolve to suit your industry.

GOETTLICH: Exactly, this is what I believe in the most.

TAYLOR: And when it comes to that vexed question - in Britain at least - about top people's pay - this particular boss reflects German values of fairness and restraint.

GOETTLICH: There is a statistic that the level of money people should receive in the month where people feel most happy with and the level of happiness is not increasing is approximately 5,000 euros.

TAYLOR: How important is it to you in this firm that your wages, your income as the person who owns the firm, runs the firm, don't get too far away from someone like Michael who's more junior in the firm? Is that important to you?

GOETTLICH: Yes it is important because it would not fit to this whole team spirit in the end if the bosses would just drive whatever, with their Porsches, and the others are coming with 2,000 euros a month.

TAYLOR: What I was hearing from Oke was not just different policies and practices, but a more socially responsible set of values. I was starting to think this was all too good to be true. So, to put German strengths and weaknesses in a global perspective, I visited Professor Thomas Straubhaar of the Hamburg Institute of International Economics. I started by asking him about the breadth of support for the traditional German model.

STRAUBHAAR: This is somehow in the genes of the German understanding that it is outside any questions that industry is the heart of the German economy, and this is accepted by parties unimportant whether they are left or right wing, politicians, social groups, employers or employees. It is the framework that frames the German mind.

TAYLOR: This consensus may have helped build and maintain Germany's formidable industrial and export sector, but how suited is this model to the varied and complex challenges faced by countries like Germany, and the UK, in the new global knowledge economy? Here Professor Straubhaar has his doubts.

STRAUBHAAR: Nowadays globalisation does not mean anymore that you just export goods. Internationalisation means that you have branches outside, that you have affiliates outside, that you have many small sized family run German enterprises have difficulties. They are world champions in exporting goods, but they are not so good in exploiting markets and the potentials of markets outside Germany.

TAYLOR: Increasingly we're going to see competition from China and developing economies. Are you confident that Germany is going to continue to be able to compete?

STRAUBHAAR: The German model can only survive if we are at the top of technology, that we set the standards; and this again relates to education, it relates to openness.

TAYLOR: It looks as though the one thing if you're British and you're looking to our economic prospects, the one bit of comfort we would have is our higher education sector. We have many universities in the top 20. Now the German higher education sector isn't as strong. Do you see that as being a big challenge?

STRAUBHAAR: Actually this is really one of the largest challenges, that we do not have light towers of brilliant universities attracting the best minds from all over the world.

TAYLOR: There's always a danger when one economy is doing well, another economy is doing badly, that the economy that's not succeeding looks at the successful economy and picks little bits of its model and says if only we could import German apprenticeships or we could import German banks. Do you think that works as an idea?

STRAUBHAAR: No, I don't think that it works. You can export goods, but you cannot export or trade mentalities.

(segues to):

TAYLOR: (*fx: train*) Sitting on the train now on the way back to Hamburg Airport, reflecting on the day, in many ways the two firms I visited couldn't have been more different - one the 150-year-old shipbuilder; the other, the eight-year-old digital distributor. But yet I'm struck by what they have in common - the pride in their core product, their commitment to apprenticeship, the sense of social solidarity within the firm. And what that makes me feel is that whilst there are specific lessons we could learn from Germany, we have to also understand how deep this runs in this country, how the way their industry works is to do with their culture and their social values. And that Professor Straubhaar is right - you may be able to import particular practices, but what you can't do is import a whole way of thinking.

TAYLOR: Back in the UK I pondered the big question. The roots of the German system may lie in a fundamentally different history, culture and value set, but are there practical steps we could take to adopt and adapt parts of that system to our own needs? Ed Miliband adviser Stewart Wood thinks those apprenticeships may be the most promising candidate for import.

WOOD: The fundamental thing we have to do though is think about the demand for those skills as well as the supply of skills, and take the supply of skills much more seriously and get employers centrally involved in the development and certification of those skills. That is a kind of revolution in the way we think about training, which, you're right, is challenging not just the way our economy works, but the way our education system has worked.

TAYLOR: Germany's system is as much about institutions as rules and regulations. For example, there's the strength of the Mittelstand, long established medium sized family owned firms. Could policies to promote a similar sector in the UK provide Labour with much needed common ground with British business? Another thinker close to Labour, the IPPR's Will Straw, argues that these firms represent a more positive image of wealth creation.

STRAW: I think that the risk recently has been that the rhetoric has been to anti-business, or at least has been seen as being anti-business; whereas the message I think Ed Miliband wants to get across and needs to is that he is opposed to those businesses that have high levels of market concentration and are taking consumers for a ride, but is very much on the side of those people in businesses trying to create jobs, trying to do good for the British economy.

TAYLOR: There are people in Labour who want to talk to business and are enthusiastic about supporting small and medium sized enterprises. There are also people in the Conservatives and the Liberal Democrats who are more open minded to the idea of industrial strategy and greater coordination, and that they have a kind of common debate which excludes the kind of class warriors at either side of the Conservative Party and the Labour Party. So is this a kind of new third way which could lead to some kind of realignment in policy terms?

STRAW: I think certainly if you look at the politics of a future coalition between say the Labour Party and the Liberal Democrats, this is very, very rich territory.

TAYLOR: One factor we do now have in common with Germany is a reliance on coalition to form a Government. And Liberal Democrats have also been casting envious glances across Europe. Chris Nicholson of Lib Dem think tank Centre Forum recently co-authored a pamphlet extolling the virtues of German style worker engagement.

NICHOLSON: Although our industrial relations in the UK are a lot better than they were, if you look at the figures for the number of days lost to strikes in Germany compared to the UK, then it's about a quarter. Also in terms of the way in which there's co-determination between workforce and management working together, that that has beneficial impacts as well.

TAYLOR: This is a very different model to the traditional adversarial British image of industrial relations. Partnership between employers and employees is a key feature of the German model, with support across the political spectrum. British business has been less keen on ideas like supervisory boards, but it's not just the employers' side which would have to adopt a less confrontational approach. Traditionally Labour's allies in the trade unions have also been ambivalent about industrial partnership.

WOOD: If we're going to do this, it's not something that we can introduce in six months or a year. I also personally think it's something that would be very difficult to introduce in a period when unemployment is rising at such a rate and at such levels as it is.

TAYLOR: Stewart Wood thinks something of a culture shift is required if we're going to see a more Germanic system of industrial relations.

WOOD: I think we need to have a long, hard, dispassionate look, cross-party as well, about the kind of institutions we need to build, but it would be very rewarding if we could get people to think of trade unions as partners in long-term industrial adjustment.

TAYLOR: Although I noticed that when Ed Miliband made a speech recently about these ideas and his five point plan and his social market fund, I don't think one of those points was that the Trade Union Movement needs to modernise itself.

WOOD: *(laughs)* We need an economy that needs to modernise and that holds for all parts of our economy. That holds for the banking sector and it holds for employees and it holds for employers, and this kind of adjustment can't be done purely by reforming banks alone and it can't be done by pulling levers from Government alone. I think it does require all actors in the economy to think about ways that they can improve their coordination and their sort of collective voice.

TAYLOR: While policy makers and think tanks weigh up the pros and cons of introducing German ideas, change may be happening in a more subtle way - not by Brits going to Germany to find answers, but by Germans investing in Britain and bringing their ways into our workplaces. Bob Bischof is chief economic adviser of German industry UK

BISCHOF: We've got about 500,000 employees in German Industry UK. We have apprentices, we have got German apprenticeship systems in the UK. Siemens runs their own college, they run their own apprenticeship system. Bosch does the same, BMW do the same. All the large companies are basically doing it.

Segue:

STUART: There is an enormous amount of cross fertilisation going on.

TAYLOR: Labour MP Gisela Stuart. She sees the German economic influence in her home region of the Midlands and welcomes the flow of ideas and people between countries.

STUART: You go to Birmingham at Christmas, you will have the largest German Christmas market outside Germany in the middle of Birmingham and your average Brummie sitting there having his or her pint of Munich beer, a pretzel and a weisswurst. It's happening. But the other thing which I just think is so significant is that some of these ideas are going back to the young Germans who are finding the open way in which the Brits are doing things incredibly liberating. There is a two-way traffic going on which I think we underestimate.

TAYLOR: There's an echo here of German concerns about their readiness for the next stage of globalisation. One sector where the UK undoubtedly leads is higher education - where our best Universities top the European league tables. And this is what's attracting some of Germany's brightest students to our shores.

Another German who's made her way to Britain is Claudia Crawford, a former federal minister and colleague of German Chancellor Angela Merkel. She's now head of the London office of the Konrad Adenauer foundation. When it comes to dealing with the demography of an ageing and increasingly multicultural society, she suggests Britain may be more ready than Germany.

CRAWFORD: We are an ageing society and we have to deal with this problem because the question of innovation from my point of view also relies on the question of new ideas which very much comes from young people and new educated people. But I could imagine that question of migration, for example, will also be discussed in a new way. And maybe in UK you have more experience with this because you have of course more migrants from different countries than we have in Germany and, therefore, I could imagine this would also be an area where we will have to have new experience and to find ways how to hold our society together.

TAYLOR: Despite their successes, few Germans seem to me complacent. But while they compliment the UK for our diversity and flexibility, it doesn't mean they intend to sacrifice the values which underpin their economic model. And there are some things they have no intention of copying. For example, the UK's recent dependence on financial services - or our addiction to property bubbles and easy credit.

CRAWFORD: Germans don't have money, they don't spend; and it was a great surprise for me coming to London to learn if you haven't money to spend, you get another credit card. And this is just not our nature.

TAYLOR: Former German families minister Claudia Crawford.

CRAWFORD: Maybe it comes from the experience in the past. I mean we know what it means - hyperinflation. Probably this is something burned in our national brains to say we have to be disciplined with our budget. In all the discussions I hear here in London, we have to spend more and we have to create demand, I just can't answer. I'm afraid it will not work because if people get the feeling there's a crisis, you can't just create demand. The message is quite the opposite - people start to save more because they have fear of a crisis. So this is something very collective in Germany.

TAYLOR: The Germans still have laws against usury. Attitudes to money and debt have deep historical roots, dividing them from modern British attitudes. Many in Germany trace their strengths back to the economic traumas of the nineteen twenties and thirties and - ironically - the system of dispersed power imposed on Germany by Britain and its Allies after the second world war. Admirers like Ed Miliband's adviser Stewart Wood are left wondering what it would take to make Britain undergo such a deep shift in its approach

WOOD: What's fascinating about Germany is employers, the public, Government, trade unions altogether have made a choice to preserve the main components of their model in spite of overwhelming incentives to kind of abandon it. That's an extraordinary choice. So you're right, it is historically rooted, but I don't think that the mere fact something is historically rooted doesn't mean that choices are bound by history or by character.

TAYLOR: My sense is that most people's attitude after the credit crunch is let's get back on track, let's look for house price rises, let's hope we can get back to where we were before. Have we gone through a big enough kind of trauma to set us on a different track?

WOOD: Yeah, it's a good question. I mean I hope that trauma is not a necessary condition for making an economy fundamentally more robust. I do think for many people this has been a trauma. I think it's been ideologically quite a trauma because there was a model of our economy which we thought worked; and Labour politicians, as you know, as well as Tory politicians before were confident that in some senses the model was pretty robust, and it turned out not to be robust. We have to take a hard look at how we can pay our way in the world in ways which solve the problem of the fact that people in the middle essentially have not been enjoying rising incomes for a long time, in ways that protect taxpayers against excessive dependence on one sector's profits, and in ways which don't rely on consumption that turns out not to be sustainable. I think that's all crucial.

TAYLOR: British politicians will continue to make the case for trying to plant their favourite German policy in our soil. But is the climate here right? My visit to Hamburg and the conversations I've had with experts on Germany convince me its success derives not just from policies but long established institutions, shared history and culture. This is why power is more dispersed between places and people than in the UK and why greater co-operation persists across political lines, between finance and industry, and between employer and employee.

In the UK, and not just in Labour ranks, there is much talk of building a better balanced economic model. And if this is our goal we can take tips from many countries, and we shouldn't underestimate our own considerable strengths. The next time a politician or think tank urges us to learn from Germany, we should perhaps bear in mind the warning I heard in the Hamburg office of Professor Thomas Straubhaar - we may be able to import an idea, but we can't import a whole way of thinking.