The 'crisis of self-employment' in Germany during the 1970s. Current debate and international comparative evidence.

jan-otmar.hesse@uni-bielefeld.de

Abstract

The level of self-employment became an ever more important indicator of a society's capitalist ability during the past decades. It is perceived as a scale for risk-taking behaviour in a society, which would lead to innovation and economic growth. In contrast, self-employment appears predominantly as a special issue of labour-market statistic in economic history that was used to show the decline of the agricultural sector in the advanced economies as well as the transformation to a society of dependent employees working in industries and services. The paper aims at bringing together this two interpretations: The "entrepreneurial" interpretation of self-employment statistics may help understanding its meaning besides the "sectoral change"-approach as the labour-market interpretation of the 1970s may adjust the huge expectations of recent "entrepreneurship"-narrations. The paper goes back to a debate in the German public on the shrinking "entrepreneurial spirit" in Germany in the late 1960s. The occupational transformation of German agriculture then was paralleled by publically debated proliferation of the take-overs of German firms by foreign investors, especially in consumer products and consumer electronics. After the description and analysis of this development and its comparison with other O ECD-countries the paper will elaborate on the role which the discourse of academics and pressure groups had for the revival of the entrepreneur as a public figure in Germany in the 1980s.

Introduction:

Like most modern industrialised countries, Germany experienced a serious economic and social crisis during the 1970s. Structural change within the economy came along with the oil-price crises of 1973 and 1979 as well as the breakdown of the fixed exchange-rate system of Bretton Woods. In addition, some industrialised countries experienced a structural change within the workforce: Whereas a comparatively high proportion of self-employment remained stable until the 1960s, during the 1970s some of the former self-employed gave up business and turned to salaried employment. Germany was one of the countries where this structural change of the labour force took place rather rapidly and visible. Furthermore, the change was accompanied by the comeback of a public discussion and political campaigning in behalf of the "entrepreneur" as an important figure in West German society and economy.

This paper aims to show the connection between the trend of an increasing proportion of employment and the discourse on the entrepreneur. German society, which was strongly defined by the entrepreneurial figures from the years of the "economic miracle", struggled with the lack of entrepreneurial initiative as one reason for the crisis of the 70s. However, in the 1980s self-employment rose again and we may ask if one of the effects of this was overcoming the economic crisis.

The paper proceeds as follows: The first part will be concerned with the development of self-employment in different OECD-countries in the 1970s. In the second part, the circumstances of shrinking self-employment in Germany will be discussed. The third part elaborates on the discussion on the lack of entrepreneurship as a reason for the economic crisis. And finally the question will be discussed if the debate on entrepreneurship lead to the revival of "self-employment" in Germany in the 1980s.

I. Shrinking self-employment during the 1970s

Western industrialised countries in general show a decline in the ratio of "self-employment" in the post WWII-period, accelerating since the 1960s. In the 1980s, in some of the countries a reverse trend can be observed, and the share of self-employed persons in the labour force increased again, depending on national economic policies. Some countries, like the UK and the US, supported the founding of new businesses as a strategy against unemployment, a policy that ended up in an increasing number of self-employed persons, including many precarious businesses. The nature of self-employment of the 1950s, of course, was different in most of the countries explored: Agriculture then took a larger share of production and most of the farms, no matter of size, were run as independent businesses, so that the farmers emerged as "self-employed" in labour statistics, often accompanied by an even larger number of so-called "family workers". Hence, the shrinking number of self-employment in modern societies in fact was in large parts the occupation statistics' reflexion of economic structural change.

The other part, the non-agricultural part of the change, is of interest here: In Germany, half of the workforce switching from self-employment to salaried employment during the 1960s and 1970s had nothing to do with agriculture. They had been small

shopkeepers and their families on the one hand, and businessmen, changing to large firms, on the other. If we take only statistical "self-employment" into account and do not consider the mainly agricultural "family workers", we will find a number of 3.1 Million being "self-employed" in Germany in 1963. Ten years later, 0.6 million of the former self-employed had disappeared from statistics, leaving 2.5 Mio. as "self-employed" in the year of the first oil-price crisis. The velocity of change slowed down afterwards, and only 200.000 additional "self-employed" gave up during the next 10 years. "Self-employment" in this definition reached a share of 11.5% of the German workforce in 1963, but went down to 9.3% in 1973 and 8.8% in 1983 (all numbers are taken from OECD 1985).

[Insert Figure 1]

If we want to compare the German development to the one in other countries, we will be trapped in the problem of finding a reliable definition of "self-employment". Only few countries distinguish between "self-employment" and "family workers" in their occupational statistics, so that it is difficult to isolate the sectoral change and the change in types of occupation. But as Simon Parker (2004: 5-7) shows, the term "self-employment" bears much more unsolved problems that makes it an indicator not reliable for direct national comparison. In most countries, the boundaries between incorporated business and employment are not always well defined. Sometimes, empirical research using questionnaires rests on self-assessed statement on the "self-employment" of the respondents. Statistics do not differentiate between regular business owners and shareholders of cooperatives, who equally appear as "self-employed" in the statistics. Given that variety of the use of "self-employment" in national occupation statistics, it is probably easiest to concentrate on the national level of growth or decline.

[Insert Figure 2]

I took the numbers of the work-force statistic for the "growth-rate"-account. For the countries where the OECD-statistic does not differentiate "family workers", I accounted for all the "self-employed". Self-employment in **Germany** showed a constant negative trend with average rates of minus 1,4%. But the rates show different dynamics before and after 1971, the year when "self-employment" went down by 3,3%, making it the peak year in the period. During the decade after the oil-price crisis of 1973, the decline was much slower with only minus 1% and even a slight increase in the early 1980s.

Compared to Germany, the figures of the **US** show the same trend before the crisis. But "self-employment" seemed to recover in the US and took an upward trend again since the early 1970s. However, a massive expansion of the labour force in general because of durable domestic birth-rate surpluses and immigration might explain that result. It might even refer to another issue, namely that "self-employment" came along with increasing unemployment since the 1980s, so that in fact "self-employment" changed its meaning and structure during the period of research.

The **UK** shows a completely different pattern of development, which has to be attributed to the low share of agricultural employment in Britain from the very beginning. While figures for the "family workers" are not available for the UK, the country started with a comparatively low level of "self-employment" of roughly 7% in the early 1960s that did not significantly change during the period. But it shows an interesting development: During the monetary and economic crisis of the late 1960s and early 1970s the share of

"self-employment" in the UK went up to 8%, having 1% annual growth-rates exactly during the period when the same indicator goes down in the US and Germany. The policy of the Thatcher government is quite visible by an increasing rate of "self-employment" up to 8,4% in 1983 and 12,4% in 1990 (last number after: Parker, 2004:9).

From the nation-wise observation of the development of "self-employment" in some industrialised countries, a change in the tendency of shrinking "self-employment" can be summed up. The transfer to an increasing number (sometimes shares of) "self-employed" can be observed from the mid 1970s, starting somewhat earlier in the UK and the US and taking place comparatively late in Germany, where an increase did not take place before the 1980s.

But what does the result mean? It certainly does not mean the comeback of the "entrepreneur" as it often was referred to in contemporary sources. Support of "selfemployment" became increasingly an administrative strategy to reduce unemployment, and an increasing share of the "self-employed" was not among the well trained, innovative and successful entrepreneurs, but their occupation hovered on the border to unemployment. What we know about the average income of self-employed persons supports the argument that on average, self-employed persons of the 1980s earned less than salaried employees. Self-employed persons in some countries apparently split up into two groups, one being very rich and the other one left with an income below the average (Parker 2004, 18). The level of "self-employment" does not necessarily mean that there is an accordingly high level of entrepreneurial activity in a society. It cannot be taken as a reliable indicator for the meaning of "entrepreneurial spirit" in a society. The relationship is much more complex. Not every "self-employed" person can be considered an "entrepreneur" (no matter which definition of entrepreneur one would apply) and vice versa there are so many "entrepreneurs" (e.g. in the Schumpeterian perspective) never working in their own businesses, but as paid managers.

But we can use the indicator in a more critical perspective if we look for its meaning in the contemporary discourse. No matter how complex the relationship between the category "self-employment" in national occupation statistics and the real economic impact of "entrepreneurship" in a society might have been, business associations would keep using the shrinking tendency of the first as an argument to highlight that they expected dangers for prosperity and the societies' well-being – even though economic research never affirmed a connection between a high rate of self-employment and economic growth or prosperity.

2. The political background for shrinking "self-employment" in Germany

In Germany, "self-employment" had been a considerable part of the "economic miracle" of the 1950s. Successful entrepreneurs stood out as symbols for the economic recovery of post-war Germany, and some of them had been quite visible in the public. During the 1960s, some of the family businesses grew to a size that made the transformation into stock-exchange companies feasible and necessary. But economic policy contributed mostly to the particular structure of the German economy: the "ordo-liberal" policy of the famous minister of economic affairs, Ludwig Erhard, acted in favour of entrepreneurial activity by tax policies as well as via direct subsidies (Abelshauser

1983). Furthermore, the nature of the institutions on the labour markets, the close cooperation of trade unions and business, the "Rhenish Capitalism", let gains from entrepreneurial activity rise while wages remained comparatively stable. The whole package generated an excellent environment for investment. The net rate of investment reached 25% in the early 1960s.

The situation changed during the 1960s with the advent of the structural change, the crisis in the mining industry first in 1958, and the turn to a new government under participation of the Social Democrats in 1966. West Germany experienced its first economic crisis in 1967 and a permanent inflation pressure that was said to be "imported" from the US. To overcome the crisis of 1967, Keynesian macroeconomic finetuning was applied and appeared to be quite successful. All tools of Keynesianism had been brought together in the "stability act" of 1967, which prepared the ground for a more contractive economic policy as well, in case the business cycle would get overheated. Prosperity apparently came back in 1968, with a growth rate of the GDP of 6% in 1969 – but inflation went up as well. Therefore, the new government decided to apply contracting tools of the "Stability act". At least some of the tools affected "entrepreneurial activity" heavily. For example, the government introduced an additional 10% tax on income for business as well as for paid employment that should be paid back three years later. It cut the possibilities for depreciation for a period of two years, which was to restrict investment. Monetary policy and the slow breakdown of the Bretton Woods System took a little pressure from the domestic inflation rate after the devaluation of 1969. But the problem came back, and new special taxes on investment were introduced early in 1973. As a result, investment became much more expensive in Germany during the years of practised Keynesianism (Schanetzky 2007). If one adds to that the unpredictable exchange rate mechanism, one sees that entrepreneurial activity must have become much less attractive and more risky. The reform of the income tax in 1974 that raised the peak tax-rate to 56% might have contributed to the decline of investment as well. It was not before the end of 1973 that the government switched to expansion policy again. But in the years before, West Germany experienced extremely bad conditions for investment, which - in my opinion - must have affected the level of "self-employment" in Germany.

Additionally, there was a fast increase of labour cost because the trade unions gave up their reluctant wage-policy of the early 1960s. The increase of the money wages reached 12% in 1969 alone. Most scholars claim that the increase of wages at that time was the decisive reason for the decline of investment and entrepreneurship (Giersch et.al. 1993). Furthermore, the increasing cost of social security and health insurance, which raised labour cost for the corporations, was made responsible for the declining investment (Hockerts 2006). In contrast, I favour the position of Fritz Scharpf (1987, 163) who argues that direct taxation of high incomes and investment must be taken into account as well. Together with the restrictive monetary policy of the Deutsche Bundesbank and the massive increase of interest rates, the domestic policy triggered a serious "stabilisation crisis" that gained momentum even before the oil-price crisis of October 1973.

After the oil-price crisis and the massive shock to the German economy in its aftermath, state demand rapidly increased. Part of the state demand was labour demand. The labour market saw a fast increasing demand for teachers and other civil servants starting at the end of the 1960s and accelerating in the 1970s. Public employment rose from 3% to 8% of the work force by the end of the 1970s, of which the expansion of the

labour force of the states (in Germany responsible for school and university education) was by far the largest. This new occupation possibilities and a reallocation of the level of wages probably was equally important to the decline of "self-employment". Apparently, some of the former small businessmen took the opportunity to switch to paid employment or had no alternative to doing so. However, we do not have enough empirical evidence to state such an interpretation from the level of individual or collective biographical stories.

3. Campaigns for Self-Employment

The 1970s saw a twofold reaction on the decline of self-employment and the related decline of entrepreneurship, as the former was described. On the one hand, academic economists intensified work on the meaning of the entrepreneur and research on its economic impact. On the other hand, corporate associations started public campaigns to rehabilitate and strengthen the image of the entrepreneur within and the entrepreneurial attitude of the societies.

The academic reactions encompassed much more than the German intellectuals. After a long neglect of the entrepreneur in economic theory in the era of macroeconomics and general equilibrium research, the entrepreneur seemed to experience a comeback in economics in general during the 1970s (see: Blaug 1998, Barreto 1989). The book on *Competition and Entrepreneurship* of Israel Kirzner (1973) may serve as a core reference in this respect. But there are lots of important contributions to this discussion from the late 1960s on (e.g. Baumol 1968). In parts the discussion must be seen as a particular reaction to the waning explanatory power of Keynesianism for the economic crisis since the late 1960s. Less prominent, but nevertheless existent, was the German discussion. One of the most important authors in this respect was Günter Schmölders, professor of economics at the university of Cologne. Schmölders belonged to the "ordo-liberal" circle in German economics around Walter Eucken and Wilhelm Röpke, was concerned mainly with state finances and tax reform, and tried to establish broader research in the study of economic behaviour during the 1960s. The entrepreneur became one of his main objects of interest, and he triggered research on the attitudes of entrepreneurs as well as the public opinion on the entrepreneur. In 1970 he was appointed to organise the big annual meeting of the Mont Pelèrin Society in Germany, and he chose the entrepreneur as conference theme (Schmölders 1971). In my opinion, this business cycle of research and theoretical contribution on the entrepreneur has to be judged as an academic reaction to the shrinking meaning of the entrepreneur in economic theory as well as in the economy. But such a claim is hard to prove and broadly disputable.

Therefore, I would like to switch to a somewhat more concrete branch of literature, namely the entrepreneurial reaction to the issue: Business associations, the chambers for industry and commerce and political associations such as the "Mittelstandsvereinigung" of the German Christian Democrats (which for the first time in West German history did not participate in the federal government in 1969) switched to more or less public campaigning in behalf of the entrepreneur since the late 1960s. The decline of entrepreneurial activity was not only seen as a cause of the current economic crisis, but much more dramatically as a threat to the economic system as a whole. Social market economy rested on entrepreneurial activity – so the story went – and the decline in self-employment would cut innovation and might be the first step on

the road to socialism.

The figures for the decline of "self-employment" served as the most important empirical evidence. Furthermore, in the early 1970s alarming surveys about West German attitudes towards the entrepreneur were published. The majority of the Germans would describe entrepreneurs as being "anti-social", not a model for human behaviour, not humble and not democratic. 1968, before the students revolt in Germany, attitudes showed a completely different shape: 59% of the surveyed judged the entrepreneur as being social, 50% as being humble and 61% as being democratic men (Junge Wirtschaft 3/1973). Günter Schmölders got the result from a 1969 survey that 57% of the Germans thought that entrepreneurs should be forced by law to act in favour of the workers. 55% thought that entrepreneurs would live at the expense of the community (Schmölders 1971). In the mid-1970s, a survey of the Allensbach Institute, one of the most famous German institutes for the study of public opinion, was frequently quoted as having found out the following change in public opinion: Whereas in August 1962 17% of all salaried employees stated that they in principle were willing to switch to a self-employed occupation, in December 1976 there had been only 7% left (Noelle-Neumann 1977: 200). (A similar study for 2000 accounted that 49% of the Germans were prepared to switch to self-employment! - Blanchflower 2000).

As an example for the workings of the discourse to strengthen entrepreneurial initiative, I examined the journal "Junge Wirtschaft" (young economy), the journal of the "Bundesverband Junger Unternehmer" (Federal Association of Young Entrepreneurs) and the "Arbeitsgemeinschaft Selbständiger Unternehmer" (Workgroup of self-employed entrepreneurs), both covering the voice of the German "Mittelstand" with particular political relations to the Christian Democrats. For a more reliable perspective, an additional scrutiny of the Associations of big business (Bundesverband der deutschen Industrie, BDI) as well as the perspective of the major political parties would be necessary.

From that (very limited) perspective, two important conclusions were won:

1. In the early stage of the discussion, it was mainly attitude that had been made responsible for the lack of self-employment. The journalists and employees of the Business Associations appealed to the wish to become "self-employed", and in 1973 the first institutions had been founded where forthcoming entrepreneurs could receive advice how to run a business and how to cope with the administrative requirements. In the literature and in some articles, even positions were to be found that shed criticism on businesses: The loss of the social position of entrepreneurs had been attributed to their own social behaviour, and the revival of entrepreneurial activity would be reached by an increase of social responsibility, so that entrepreneurship would be a model for social behaviour again.

Günter Schmölders, e.g., plead for an increase of social investment and social management in firms. Business in Germany should invest more in charity and should show more sensitivity about democratic structures within the firms (Schmölders 1973, 163). Egon Lampersbach, chair of the Mittelstandsvereinigung der CDU, requested the entrepreneurs to show innovation and risk-taking attitudes, to rest their business on internal freedom and democratic structures (Junge Wirtschaft 2/1973). In 1972, two journalists wrote a book with the title "Der häßliche Unternehmer" (the ugly entrepreneur) and recommended to strengthen co-operation within German enterprises

to reach a more positive attitude towards the entrepreneur in the public. Eberhard von Brauchitsch, Manager of the Flick business empire, was accused for having stated on a conference in behalf of the entrepreneur that entrepreneurship should be fun (Junge Wirtschaft 1/1976: 10). For the journalist of the magazine, such a statement would contribute to a hostile attitude against the hard working entrepreneur.

2. During the mid 1970s the focus of the discussion changed completely. A self-critical perspective disappeared, and bureaucracy and wage-pressure in had been made first and foremost responsible for the comparatively low rate of self-employment and investment. Administrative rules in this perspective made the step into self-employment more difficult than necessary (Pieroth 1976). Most of the examples given in the articles – which operated with headlines such as "Gängelwirtschaft" – were taken from personnel administration. The new law on co-determination of 1976 was claimed to have contributed to increasing bureaucracy costs. But other regulations like the laws for building or the sustainable use of the environment etc. had been mentioned as well (Junge Wirtschaft 3/1978). From the perspective of the entrepreneurs, wage-costs had been an important reason for the lack of investment as well as the declining number of self-employment. That argument was attributed to the extraordinary wage increases that the trade unions reached in the early 1970s. Furthermore, the fast increase of business contributions to social security was mentioned as a source for the increase of labour cost.

Both arguments taken together (bureaucracy and labour cost), the discussion in the late 1970s showed a completely different structure that finally ended up in the demand for political reactions. When the influential *Sachverständigenrat* (the economic committee) included self-employment in its agenda for its recommendations to economic policy in 1978, subsidies to local programmes for aiding the establishment of businesses had been expanded. The "Mittelstandsförderung" (support of small businesses) had become the central aim of all political parties by the end of the 1970s. Furthermore, the chambers of commerce felt increasingly responsible to care not only for their existing members but to establish an infrastructure to help business to be erected. The campaign of the IHK Koblenz (chamber for industry and commerce for the region around Koblenz) of 1978 was taken as a model for the future initiative of the chambers in this respect. With the slogan "Ich mache mich selbständig" (I am going to become self-employed), an advisory book had been distributed and an advisory committee in Koblenz had been erected that offered its service for the new business generation all over Germany (Junge Wirtschaft 2/1978)'. These institutions should not serve to educate young people to become entrepreneurs with social conscience and responsibility, but to help these people to overcome the difficulties of the state administration, which in parts had been the difficulties of receiving state aid for establishing a new business.

4. Summary and Discussion

I want to shortly sum up my results – as far as they are empirically reliable – and come to some bold statements to trigger a discussion:

1. Modern western and industrialised economies experienced a general tendency of "self-employment" to decline during the 1960s and 1970s. The trend in Germany was neither unusual nor triggered by a particular "mentality" of risk-aversion. In the 1980s,

in most countries "self-employment" had a slight come-back in occupation statistics due (mostly) to government policies in support of small business and entrepreneurship as well as an improvement of investment opportunities, particularly for small specialised companies.

- 2. The development was inseparably accompanied by a revival of academic discussion on the entrepreneur, both domestic and foreign. Hence, government policies (in Germany, but I would speculate: abroad as well) had been influenced by the shift in economic theory, as well as the new interest economic theory showed in he entrepreneur was probably inspired and maybe (for the German economist Günter Schmölders: definitely) even triggered by the real decline of "self-employment".
- 3. The German society reached a new consensus in the late 1970s that self-employment was a "value in itself" (Carl Carstens, President of the FRG) that was said to strengthen democratic attitudes and independence and that limited the power of the state. If was because of that consensus why all parties agreed to the supporting policies for small businesses. Neither was shrinking self-employment made responsible for the economic down-swing of the early 1970s, nor was its increase in the early 1980s attributed to the hope, that this would help to overcome the economic crisis and unemployment. It appears to have been a fashion that was absent in economic policy and economic theory up to the mid 1970s and came back afterwards.

Literature:

Abelshauser, Werner (2004): Deutsche Wirtschaftsgeschichte seit 1945. München: Beck 2004

Noelle-Neumann, Elisabeth (1977): Allensbacher Jahrbuch für Demoskopie, Bd. VII. München, Zürich

Baumol, William J. (1968): Entrepreneurship in economic theory. In: American Economic Review 58, S.64-71

Baumol, william J.: (1990) Entrepreneurship: productive, unproductive and destructive. In: Journal of Political Economy 98, S.117-134

Blanchflower, D.G. (2000): Self-employment in OECD-countries. In: Labour Economics 7 (2000), S.471-505

Blaug, Marc (1998): Entrepreneurship in the History of Economic Thought. In: Boettke, Peter J. / Ikeda, Sanford (Hg.) Advances in Austrian Economics, Vol. 5. London 1998, S.217-239

Börgenhold, Dieter (1987): Der Gründerboom. Realität und Mythos der neuen Selbständigkeit. Frankfurt am Main 1987

Chittenden, F. (Hg.): Small Firms: Recession and Recovery. London 1993

Giersch, Herbert et. Al. (1993): The fading miracle. Four decades of market economy in Germany (Cambridge surveys in economic policies and institutions). Cambridge 1993

Hockerts, Hans Günter (2006): Rahmenbedingungen: Das Profil der Reformära. In: Hockerts, Hans Günter (Hg.) Geschichte der Sozialpolitik in Deutschland seit 1945, Band 5, 1966-1974, Bundesrepublik Deutschland. Eine Zeit vielfältigen Aufbruchs. Baden-Baden 2006: Nomos, S.1-157

Junge Wirtschaft (Young Economy – Journal of the Federal Association of Young Entrepreneurs, 1973-)

Kirzner, Israel M. (1973): Competition and Entrepreneurship. Chicago 1973

Leighton, P / Felstead, A (Hg.): The New Entrepreneurs: Self-employment and Small Business in Europe. London 1992

Lütjen, Torben (2008): Karl Schiller (1911-1994). "Superminister" Willy Brandts. 2. Aufl. Bonn: Dietz 2008

Muscheid, Jutta (1986): Die Steuerpolitik der Beundesrepublik Deutschland 1949-1982 (Volkswirtschaftliche Schriften Bd 365). Berlin 1986

OECD (1985), Labour Force Statistics, 1963-1983, Paris

Parker, Simon C. (2004): The Economics of Self-Employment and Entrepreneurship. New York: Cambridge University Press 2004

Pieroth, Elmar (Hg.): (1976) Mehr Selbständigkeit - Tendenzwende in der Wirtschaftspolitik. Vorträge und Diskussionen auf den Bad Kreuznacher Gesprächen 1976. Bonn 1976

Schanetzky, Tim (2007): Die große Ernüchterung. Wirtschaftspolitik, Expertise und Gesellschaft in der Bundesrepublik 1966-1982. Berlin: Akademie-Verlag 2007

Scharpf, Fritz W. (1987): Sozialdemokratische Krisenpolitik in Europa. Das "Modell Deutschland" im Vergleich. Frankfurt am Main 1987

Schmölders, Günter (1971): Das Bild des Unternehmers in der Bundesrepublik Deutschland. In: Schmölders, Günter (Hg.) Der Unternehmer im Ansehen der Welt. Bergisch Gladbach 1971, S.12-22

Schmölders, Günter (1973): Die Unternehmer in Wirtschaft und Gesellschaft. Wandlungen der gesellschaftspolitischen 'Hackordnung' in der Bundesrepublik Deutschland. Essen 1973

Figure 1: Rate of Self-Employment in selected OECD-Countries (%)
(OECD_Labour Statistics)

