Hijinks: *It is a well-known fact that more creative – and more successful – people also often tend to be less satisfied. Happiness and/or a pronounced degree of contentment don't seem to feed ambition or create the fire in the belly that is required to succeed in a competitive environment, or so one would assume*

Germany and the happiness paradox

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Could it be that, for all their prosperity and security, Germans are too reluctant to take risks and too complacent – in short, too happy?

By **KLAUS F ZIMMERMANN**

THE death of global manufacturing appears to have been announced prematurely. This proved to be great news for Germany. Due to the performance of its export sector, the German economy managed to exit the recession in the second quarter of 2009. Since then, the economy has continued to recover, posting healthy – and even unexpectedly high – growth figures. And unemployment is remarkably low.

However, this is the kind of good news that can go sour quickly. For now, German brands may still be able to command a price premium. But given the relentless pace of global competition, the writing is already on the wall. Germany's competitive advantage is unlikely to last another 15-20 years.

Germany, along with other manufacturing powerhouses, including the United States, Japan, and South Korea, sees companies in former developing countries, especially in Asia, investing heavily in R&D, managerial training, and education.

Chinese companies in particular, often highly subsidised by their government and relying on vast economies of scale, are grabbing market share in some industries, such as solar panels and telecommunications equipment, more quickly than anyone anticipated.

In short, while the German economy benefits from the nascent global economic recovery by providing cars, machinery, and equipment for the next growth cycle in manufacturing, the current period at most represents some valuable breathing space during which the country needs to develop and implement a strategy for prospering in a post-manufacturing world.

The only way for an economy to succeed in that new world will be to innovate – develop new technologies, invent new products, and come up with new ideas better and faster than its competitors and, importantly, faster than they can be copied by others.

Innovation, though, is notoriously difficult to measure. There are plenty of global measures of innovation, and you could think that Germany has nothing to worry about on the innovation front. For example, it ranks second on the INSEAD innovation index, just behind the United States.

But other innovation indices are less kind. For example, in the Standard & Poor's/BusinessWeek Global Innovation Index, a tradable index of the 25 most innovative global companies, the United States is represented by 16 companies and Japan by four. Five other countries, including Germany, have one company each.

And in the DIW Berlin Innovation Indicator, Germany ranks as a laggard. This analysis looked at 17 leading industrial nations, and Germany places right in the middle, in ninth place overall. Over the years, a three-tier hierarchy has developed in our innovation index: There are the leaders, then the outright laggards (such as Spain and Italy), and perched in the uncomfortable middle are the C-level students, of which Germany is one.

What is disconcerting from a German perspective is that the country has moved from a top position to the middle of the table. One wonders: Could it be that Germany, with its welfare state, solid safety net, and consensus-based politics, has created a population that is simply too prosperous to invent anything new and too content with its lot in life to want to change anything – even for the better?

Could it be that, for all their prosperity and security, Germans are too reluctant to take risks and too complacent – in short, too happy?

It is a well-known fact that more creative – and more successful – people also often tend to be less satisfied. Happiness and/or a pronounced degree of contentment don't seem to feed ambition or create the fire in the belly that is required to succeed in a competitive environment, or so one would assume.

However, this line of reasoning is not necessarily on target. Nordic countries, notably Finland, Sweden, and Denmark, consistently finish near the top in most innovation indices.

In the DIW index, all three Nordics, joined by another extremely prosperous country, Switzerland, place right behind the United States and make up the first tier of global innovators. Yet, those countries tend to provide an even cosier social environment and an even stronger safety net for their people than Germany.

Sweden is famous, of course, for its social protections – and in the 1970s, its welfare state was habitually blamed for discouraging entrepreneurship and creating a stagnant economic environment.

Its rise through the ranks of innovators has occurred in the past two decades – and while there was some smart trimming, Sweden's social welfare state was not exactly being dismantled during this time.

According to the DIW study, Sweden has the best social climate for innovation in the world, beating out even the formidable United States.

And speaking of the United States, the regions most often associated with innovation and cutting-edge technological developments are California and Massachusetts. Sure, these states are home to some of the country's leading universities (Massachusetts is home to Harvard and MIT, while California has CalTech, Stanford, and UC-Berkeley).

But these states are often – at least in less adverse budgetary times than today – viewed as being among the more progressive-minded in the country and providing a generous social safety net.

It is clearly not generous social support that is keeping Germans from taking risks. Indeed, one might even expect a strong social safety net to encourage would-be innovators to take on the risk of failure more willingly.

Innovators and entrepreneurs can try – and those who don't succeed will still face the possible loss of their private assets. But the social safety net will provide a necessary cushion in terms of health benefits and other social services for the would-be entrepreneur – and for his or her family.

Instead, what is keeping Germans from taking risks is Germans themselves. Germany doesn't need to change its social system or cut its welfare state in order to innovate more effectively. It needs instead to encourage risk-taking and improve the capacity to innovate. We've got – at most – two decades to get this right. The clock is ticking.

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