Germany Fires Back

"Instead of belittling German efforts… show a little more gratitude."

BY HANS-WERNER SINN

Since last autumn, Germany has been accused by a number of Anglo-American economists, above all by the 2008 Nobel laureate Paul Krugman, of not doing enough to combat the world economic crisis and of free-riding on other countries' stimulus programs. Recently, the *Financial Times* asked where the German economists are who defend Germany's policies, voicing the presumption that they disagree with their government's policies but are too cowardly to say so publicly, thus conforming to the rituals of the German "consensus society." From a German point of view, this discussion is a ludicrous inversion of the truth.

Germany has implemented two economic stimulus programs, amounting to €80 billion, or 3.2 percent of GDP, of which 1 percent of GDP will take effect in 2009. At first glance, this is indeed less than the American program, which totals 6.2 percent of GDP, of which 2 percent will be spent in 2009. But this impression is deceptive, since the German state, through the built-in flexibility of its extensive social-welfare system, already contributes to stabilizing the world economy.

Indeed, Germany's generous unemployment insurance policies ensure that people are able to maintain their consumption standards even if they lose their jobs. Germany even has short-time allowances that enable companies to reduce their employees' working hours, with the loss in earnings partly reimbursed by the state.

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Without this short-time allowance, the average number of unemployed in 2009 would be 300,000 higher than it is now.

At the same time, more than 40 percent of Germany's adult population (pensioners, social-welfare recipients, unemployed, accident victims, students) receives some form of state transfer income, especially those in eastern Germany, while the burden of taxes and social security contributions on those in employment is high. While this certainly impedes long-term economic growth and causes great structural problems, it also means that the state reacts extremely counter-cyclically and stabilizes the economy to a great extent, which benefits the entire world.

The German state recorded a budget deficit of just 0.1 percent of GDP in 2008, which, according to a recent OECD forecast, will soar to 4.5 percent of GDP in 2009. Thus, the economic stimulus provided by the German state budget will amount to 4.4 percent of GDP in 2009. In the United States, the budget deficit in 2008 stood at 5.8 percent of GDP, and, according to the same OECD forecast, will amount to 10.2 percent of GDP in 2009, which translates into exactly the same economic stimulus as in Germany, 4.4 percent of GDP.

In addition, Germany has much more inner stability than the United States, because it does not have the problem of heavily indebted households that are now restricted in their borrowing. German banks grant mortgages only to a maximum of 60 percent of the value of a house, instead of the 100 percent mortgages that were frequently seen in the United States and United Kingdom.

Likewise, there is also virtually no credit card debt in Germany, or other reasons for U.S.-style household indebtedness. A normal German household is not on its last financial legs, and is therefore able to compensate for income losses by adjusting its savings. This is an additional reason why private consumption in Germany, according to last week's joint forecast by Germany's leading economic institutes, will increase by 0.3 percent in 2009 in the midst of the worst post-war economic crisis, whereas private consumption is in freefall almost everywhere else in the world.

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Germany is the world's second largest importer, closely behind the United States. Thus, the stability of German consumption is currently the world economy's strongest economic pillar. Whereas German exports are falling at an annual rate of 20 percent, the portion of imports that does not consist of intermediate products for export goods is stable, helping the world as a whole.

The data clearly supports this view. According to the OECD, the annualized flow of German goods exports from January 2008 to January 2009 declined by $173 billion more than the corresponding flow of imports fell, which means that Germany's annualized trade surplus fell by the same amount. This is the strongest decline in net foreign demand facing a single country, or, equivalently, the strongest increase in a country's net demand for foreign goods. Japan, for example, has confronted only a $157 billion decline in its annualized trade balance.

During the same period, annualized U.S. imports declined by $284 billion more than U.S. exports, and China's annualized trade surplus increased by $249 billion. In other words, from January 2008 to January 2009, the United States withdrew $284 billion and China $249 billion in annualized demand from the world economy, whereas Germany provided $173 billion and Japan $157 billion in annualized demand stimulus to the world economy.

For Europe's bigger countries, the picture of annualized demand in the same period is mixed. While Italy, like Germany and Japan, has added demand, totaling $6 billion, Spain has withdrawn $101 billion, the United Kingdom $50 billion and France $19 billion. The $7 trillion decline in U.S. house prices over the past two years was equivalent to the explosion of an atomic bomb. Germany, Japan, and other countries absorbed and mitigated the shock waves. So, instead of belittling German efforts, the world should show Germany a little more gratitude. ◆