GERMANY AFTER THE SEPTEMBER ELECTIONS PART I

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It is Time for Germany to Deliver on its Commitments

Strange as it may seem, Greeks and Germans are not so different in some respects. For example, in the latest "Global Attitudes Survey" conducted by Pew Research, they were the only ones to rank themselves as the most trustworthy, least arrogant and most compassionate nations in Europe. In every other country, respondents

Stereotyping in Europe

Who Is Trustworthy, Arrogant and Compassionate

EU nation most likely to be named...

Views in:	Most Trustworthy	Least Trustworthy	Most Arrogant	Least Arrogant	Most Compassionate	Least Compassionate
Britain	*Germany*	*France*	*France*	*Britain*	*Britain*	*Germany*
France	*Germany*	*Greece*	*France*	*France*	*France*	*Britain*
Germany	*Germany*	*Greece/Italy*	*France*	*Germany*	*Germany*	*Britain*
Italy	*Germany*	*Italy*	*Germany*	*Spain*	*Italy*	*Germany*
Spain	*Germany*	*Italy*	*Germany*	*Spain*	*Spain*	*Germany*
Greece	*Greece*	*Germany*	*Germany*	*Greece*	*Greece*	*Germany*
Poland	*Germany*	*Germany*	*Germany*	*Poland*	*Poland*	*Germany*
Czech Rep.	*Germany*	*Greece*	*Germany*	*Slovakia*	*Czech Rep.*	*Germany*

PEW RESEARCH CENTER Q44a-Q46b.

were generous enough to admit that other European nations may also have merits

Source: 2013 Spring Pew Global Attitudes Survey

and positive traits.

Between 2010 and 2012, it was my country's narcissism that undermined global economic recovery, as the inability of a large segment of Greek society to identify and admit past mistakes, and hence agree on corrective actions, nearly led to the largest uncontrolled sovereign default in modern history. Today, however, although the Greek economic drama continues, stagnation in Europe is mostly due to German fixations. The rest of the world, Europe, and the south of the eurozone, can only hope that the new government in Berlin will free itself from these fixations and misconceptions, so that Germany contributes its fair share on the European and global economic recovery.

Until now, public discourse in Germany, regarding the euro crisis, seems to be so completely out of touch with the reality in the rest of Europe, that I cannot help but compare the situation with Greece's isolation, in 2011 and 2012. For example, judging from the penetration of the tabloid press, as well as from public statements of conservative politicians, during the September 2013 election campaign, it appears that millions of people in Germany believe that only their nation is committed to fiscal responsibility. Their arguments imply that everyone else in Europe, and especially in the south, are "big spenders", eager to use as much hard-earned German money as possible, to fund their excesses. But if that was the case, then why every single government elected in the European periphery, during the crisis years, was an advocate of fiscal restraint? The truth is that 'non-blonde' Europeans are not the caricature that some Germans think of them. In fact, when asked by Pew to identify which is the best way to solve their countries' economic problems, most Europeans replied “cuts in public spending to reduce debt”. Greece is an exception to this trend, but one should bear in mind that the extent of fiscal consolidation and economic depression in the country, over the last years, has been unprecedented by any international standard. Besides, when push came to shove, in the summer of 2012, even Greeks decided to elect a government that promised to continue macroeconomic adjustment.

Cuts Not Stimulus

	Best way to solve our country's economic problems ...	
	Reduce gov't spending to reduce public debt	**Spend more to stimulate economy**
	%	%
France	81	18
Germany	67	26
Spain	67	28
Italy	59	29
Czech Rep.	58	26
Britain	52	37
Greece	37	56
Poland	36	42
MEDIAN	**59**	**29**

PEW RESEARCH CENTER Q33.

Moreover, during a recent press corps trip in Berlin, we noticed that one of the major worries of the country’s legislators is the supposed ‘anti-German hatred’ throughout the rest of Europe. Indeed, the images of burning German flags, and the posters depicting the German chancellor as a Nazi leader are shocking. But the truth is that these actions only represent the views of fringe parties. Unfortunately, democracy cannot outlaw idiotic behaviour. The important thing though, is that far from detesting Germany, many Europeans agree with Berlin’s insistence on fiscal consolidation, and believe that the German government handled the crisis more effectively than their own governments. Besides, hundreds of thousands of Greeks have been living in Germany for decades, and many more went there, looking for a better future, during the crisis years. Millions of Germans visit Greece and the European south every year. If there was indeed hatred and animosity, these smooth interactions would not be possible, and our peoples would not live side by side, as they do, today.

Merkel Gets Mixed Marks for Handling EU Economic Crisis

	% Good job			
	Merkel	**Hollande**	**Cameron**	**Own leader***
	%	%	%	%
Britain	56	30	37	37
France	73	33	50	33
Germany	74	53	25	74
Spain	39	57	39	27
Italy	36	45	39	25
Greece	10	30	17	22
Poland	72	43	58	26
Czech Rep.	61	32	40	20

* Leaders asked about include: Britain: PM Cameron; France: President Hollande; Germany: Chancellor Merkel; Spain: PM Rajoy; Italy: PM Monti; Greece: PM Samaras; Poland: PM Tusk; Czech Republic: PM Necas.

PEW RESEARCH CENTER Q32a-d.

Undelivered commitments

Although reality does not confirm these fixations about “big spenders, German-hating Southerners”, some people in Germany seem to think that “well, that’s too bad for reality”. How else can we explain the fierce reactions to Mr Mario Draghi’s announcement, in 2012, that he would do “whatever it takes” to save the euro? Most commentators now agree that the eurozone has survived the storm thanks to this commitment. Moreover, the tool employed for the potential realisation of this promise (the so called “Outright Monetary Transactions” programme) specifically states that the European Central Bank will only buy government bonds of those eurozone member states, which adhere to strong macroeconomic conditionality clauses. As a result, after Mr Draghi’s statement, fiscal consolidation continued, calm was restored in the bond markets, and not a single cent of “hard earned German money” has been spent. Instead of admitting their mistake, in 2012, German officials, especially in the *Bundesbank*, now attack the president of the ECB for lowering interest rates, despite the fact that inflation in the eurozone has reached a four-year low, it is well below the unanimously agreed target of “below but close to 2%”, and that all economists, both conservative and social democrats, agree that deflationary pressures undermine economic recovery.

Similarly, German misconceptions about the ‘true intentions’ of the country’s European partners have hindered the realisation of a true banking union, with common rules, capital requirements, supervision and a single resolution authority with common backstops. Needless to remind, in 2012, Germany had committed itself to a genuine banking union, which will break the link between sovereign and bank debt and will level the playing field of corporate lending rates between the core and the periphery of the eurozone. So far, it has failed to deliver on this promise, citing legal hurdles. Instead, it insists on a “network of resolution authorities”, which they will be mostly reliant on national backstops, i.e., a euphemism of a banking union. Both the European Commission and the European Central Bank have issued substantiated opinions, arguing that German legal concerns, regarding the limitations of the current EU Treaties, are unfounded. But Berlin has not been convinced. The delay only exacerbates the credit crunch in the south, hinders the transmission of monetary policy, deepens the fragmentation of the single market, and undermines economic recovery in the eurozone.

The German current account problem

Banking union is not the only area in which Germany has failed to honour its commitments. In late 2011, the Member States of our Union agreed to coordinate economic policy and governance in the EU and the euro area and to refrain from accumulating “macroeconomic imbalances”. Germany had insisted, back then, to give the European Commission the power to review national budgetary plans and issue “country specific recommendations” or even impose financial sanctions in order to make sure that the common rules are being respected. Despite being focused on the prevention of fiscal and current account deficits, the new rules also discourage excessive surpluses. More specifically, eurozone countries are not allowed to run a current account surplus averaging more than 6 percent of GDP over a three-year period. According to the latest data, Germany’s current account recorded a surplus of more than 6.4 percent of GDP between 2010 and 2012. As a response, the Commission has repeatedly advised Germany to pursue policies that will boost domestic demand and wage growth. On November 15th, 2013, Brussels warned that “Germany has made no progress in addressing the structural part of the fiscal recommendations issued by the Council in the context of the European Semester”. Two days earlier the Commission had decided to open an “in-depth review” of the gigantic German current account surplus.

The dispute entails two separate issues ─ one symbolic and one substantial. On a symbolic level Germany’s leaders have been preaching, throughout the crisis, the need for strict adherence to commonly agreed rules. But why should everyone else commit to these rules, if Germany, Europe's largest economy, ignores the recommendations issued against her? And why would Greeks be mistaken to think that the common rules only apply to those who are weak?

On a more substantial level, some Germans argue that their country's current account surplus is a 'just reward' for the quality and competitiveness of its industry. But critics, in the rest of Europe and the world, argue that the excessive surplus is also partly due to wage dumping, excessive savings and low investment in infrastructure and other fields that would boost domestic demand. "Investment in Germany has fallen from 21.7 percent of GDP in 2000 to 17.6 percent, a significantly lower proportion than in other Eurozone countries... Meanwhile, private investment is set to fall again this year... Germany should create the conditions for sustained wage growth, for instance by reducing high taxes and social security contributions, especially for low-wage earners", European Commission Vice-President, Olli Rehn, recently wrote.

Germany's excessive surplus, and the fact that Berlin successfully managed to "transpose" its export-based economic model to the rest of the Eurozone, have been blamed for many of the ills facing global economy today. In a recent article for *Project Syndicate*, influential Brussels-based economist Daniel Gros commented that the eurozone's massive current account surplus is the main reason why emerging markets' currencies are crashing: "Austerity in Europe has had a profound impact on the eurozone's current account, which has swung from a deficit of almost $100 billion in 2008 to a surplus of almost $300 billion this year… This was a consequence of the sudden stop of capital flows to the eurozone's southern members, which forced these countries to turn their current accounts from a combined deficit of $300 billion five years ago to a small surplus today. Because the external-surplus countries of the eurozone's north, Germany and Netherlands, did not expand their demand, the eurozone overall is now running the world's largest current-account surplus – exceeding even that of China… Weak demand in Europe is the real reason why emerging markets' current accounts deteriorated and (with the exception of China), swung into deficit," Gros said.

According to the US Treasury, Germany's massive current account surplus is also to blame for weak growth and deflationary pressures around the world: "Germany's anaemic pace of domestic demand growth and dependence on exports have hampered rebalancing at a time when many other euro-area countries have been under severe pressure to curb demand and compress imports in order to promote adjustment. The net result has been a deflationary bias for the euro area, as well as for the world economy," reads a recent Treasury report to Congress on "International Economic and Exchange Rate Policies."

Moreover, a recent study by EU Commission economist Jan in 't Veld suggested that simultaneous fiscal and current account adjustment in German, throughout the crisis has had "negative spill over effects", to peripheral countries, like Greece. "The symmetry of the fiscal adjustments in all euro area countries at the same time has hampered this adjustment, with negative spill overs of consolidations in Germany and other core euro area countries further aggravating growth in deficit countries. These negative spill overs have made adjustment in the periphery harder, and have further exacerbated the temporary worsening of debt-to-GDP ratios in programme and vulnerable countries," argued Jan in 't Veld.

Finally, weak demand from Germany and the rest of the eurozone's core is often cited as the main cause for the continuous upward pressure on the euro's exchange rate, high unemployment in the Eurozone and much lower inflation than what is needed for a true recovery.

In other words, arguing that criticism against Germany's current account surplus is a form of 'jealousy' for the country's industrial performance constitutes a gross and intentional misreading of what the country's partners are saying. Higher wages and increased investment will not undermine the quality of German products. On the contrary, they will improve the welfare and wellbeing of the German people. Hence, it will be a step towards the realisation of the true aim of economic policy – higher living standards. The rest (low inflation, positive current account balance, zero fiscal deficits) are just potential means for the achievement of this aim, not the goal of economic policy. The fact that Germany focuses on the means and not the goal has led us into a situation today, in which the eurozone has achieved the lowest inflation, the lowest fiscal deficit and the highest current account surplus in the developed world, but also suffers from the lowest growth rates (even in Germany) and the highest unemployment in the developed world. Hence, if there is one thing that one can hope for from the new German government it is to solve this confusion between means and goals.

Conclusion

A few years ago, Greece's irresponsible economic policy threatened the stability and the integrity of the eurozone. But after some disputes and delays, my country finally agreed to correct the mistakes of the past. Hence, Greece achieved the largest fiscal consolidation of any other country in modern history, and its budget deficit this year will be lower than the deficit of Portugal, Ireland, Spain, the UK, the US and many other advanced economies.[1] Also, Greece almost zeroed its current account deficit, it has markedly improved its global competitiveness rankings, and it has become a global leader in the implementation of structural reforms, according to the OECD, the World Bank and the Lisbon Council.[2] The cost of this adjustment, in terms of unemployment and economic contraction, has been immense.

Budget Balance Projections for Greece and Germany, in 2013		
(Percent of potential GDP)	Greece	Germany
Cyclically Adjusted Balance	0.6	–0.1
Cyclically Adjusted Primary Balance	4.2	2.0
Source: IMF Fiscal Monitor, October 2013		

The least that Greece, and the rest of the European south, can expect in return, is for the new German government to deliver on its part of the deal: to fulfil its promise on a true banking union; to stick to commonly agreed rules, regarding excessive surpluses; to conform with European Commission recommendations for boosting

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[1] IMF, *Fiscal Monitor*, October 2013, available online: http://www.imf.org/external/pubs/ft/fm/2013/02/fmindex.htm

[2] World Economic Forum, *2013-14 Global Competitiveness Report*, available online: http://www.weforum.org/reports/global-competitiveness-report-2013-2014; OECD, *Economic Policy Reforms: Going for Growth 2013*, available online: http://www.oecd.org/eco/growth/going-for-growth-2013.htm; and World Bank, *Doing Business Report 2013*, available online: http://www.doingbusiness.org/~/media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB13-full-report.pdf

internal demand; to let ECB do its job, without interference and threats; and, most importantly, to stop doubting the intentions and resolve of its European partners.

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