Frankfurter Allgemeine Zeitung

Sustained boost to growth called for

Dr. Michael Heise, 18.01.2010

Following the steep nosedive at the beginning of 2009, the German economy initially emerged impressively from the crisis, only to falter again in the final quarter. Germany has not yet become the economic locomotive of Europe, a role it could play given its relatively better situation on the debt, housing and labor market front. It is striking that, despite the much chided private and public sector debt, the US economy is currently expanding much faster than Germany or Europe.

An economic locomotive cannot get its thrust from exports alone, it has to pull others along with it. At the moment, however, the German economy is being powered above all by exports, or more exactly the export surplus. In the fourth quarter of last year the trade surplus is likely to have been a princely EUR 40bn. That is well up on the EUR 24bn seen in the first quarter of 2009 when German exports were dragged down by the sudden collapse in world trade. And, as the indicators are showing, exports are likely to be the main driver in the coming months as well. This is also plausible given the steep upward trend in many key Asian and Latin American emerging markets. Eastern Europe, however, is lagging behind, hampered by the high level of foreign debt. In the interests of this region, but also of other partners in Western Europe, Germany should unfurl economic traction. Countries such as Ireland and the UK, Spain and Portugal or indeed Greece are embroiled in a difficult consolidation or adjustment phase and are therefore unlikely to provide any major boost to international trade.

Germany needs to do more to ensure sustained growth in its domestic economy. The robust German labor market provides a good foundation. The high level of employment can be attributed mainly to the enhanced flexibility of working time and labor costs. As a result, a slump in private consumption as seen in other countries is not on the cards. But we will not see a dramatic increase in consumption either as per capita income is rising only marginally and the number of people in work is falling slightly. As long as this is the case, there can be no talk of a self-sustaining upswing. It is therefore right that the government’s three stimulus packages will continue to provide a boost in 2010. In 2011 the economy will then have to get by not only without the cash for clunkers program and the child bonus, which have already expired, but also without big-ticket investment programs and with lower short-time working payments. The consolidation effect and hence the drag on demand could add up to EUR 15bn in 2011. Seen like this, it is by no means bizarre to give the economy a sustained boost via tax reforms which take effect from 2011. Targeted relief can help counter the burden on the public from other quarters, such as municipal levies and social security contributions. And without more sustained growth in the domestic economy, any attempt at consolidation will be even more difficult.