FAZ Column

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Germany's responsibility
by Michael Heise

Germany should not react indignantly to the criticism of our current account surplus currently emanating from Brussels and Washington. A reflex-like rebuff would not be advisable for several reasons. We Germans have helped work towards supplementing the European Stability and Growth Pact with a mechanism to monitor macroeconomic imbalances. It would be reckless to immediately discredit this new instrument. Back in the first half of the last decade the Stability Pact debt rules already had their teeth removed when Germany and France deviated from them and then proceeded to "reform" the pact. Macroeconomic stability in the eurozone is at least just as important as fiscal discipline. The savage recession in the peripheral member states was the upshot of such imbalances, above all deep-red current account surpluses and an unhealthy increase in private debt. In order to avoid such aberrations in future, it is important to accept criticism of one's own state of affairs.

That export surpluses are by no means a sign of economic strength when they result from too low domestic demand was the subject of wide debate in Germany back in the 1980s. So the current debate is not particularly new. It is relatively simple: Germany's high savings are not absorbed by corresponding investment here at home but are to a large extent exported (again). Public-sector investment has been languishing at a low level for years and the long years of the financial and debt crisis have taken their toll on private investment.

From this angle it becomes clear what sensible and less sensible ways there are to reduce the export surpluses. Aggressive wage increases to boost consumer demand, as some are calling for, would be counterproductive. They might lift consumption temporarily, but would certainly pose considerable risks to the labor market. Germany as an industrial location would be weakened by a rise in costs, investors would be more likely to head for the exit. In a market system, undermining one's own competitiveness cannot be a serious proposal, our partners in Brussels and Washington will understand that. But there are options. In order to give a sustainable boost to consumption, the relatively high overall tax burden on lower wage groups could be reduced. The OECD and the EU Commission argue along these lines. We should not turn a deaf ear. In addition, more must be done to boost investment: not focusing solely on new and higher welfare spending, but more public-sector investment. We need to improve the framework for investors, for instance by simplifying write-offs or taxing corporate earnings in a manner which is neutral with respect to financing decisions, via cost control in the energy sector, more openness to new technologies and the promotion of business start-ups, along with efforts to improve the network infrastructure, i.a. for electricity, telecommunications or transport. All this would also benefit our trading partners.