Surplus Germany

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Abstract: This article privileges a financial sector explanation for the persistent German trade surpluses of the past 15 years. More specifically, it explains the disruptive consequences of a long-running stagnation in domestic investment in the face of rising German savings, particularly at corporate and government levels. It also offers a political explanation of how German elites have understood (and often misunderstood) the trade surplus, and it links major distributional choices in Germany’s domestic political economy to the disruptive international trade and investment flows. The result is what one might call a “political narrative of unbalanced growth.” The argument has implications for the increasingly tense German-American Transatlantic economic relationship.

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“Everything should be made as simple as possible. But not simpler.”

–Albert Einstein

More than two years into the Administration of US President Donald J. Trump, it is fair to say that Germany remains under US pressure for its large and sustained current account surplus. More than a year into the latest incarnation of the Grand Coalition, it is also safe to say that SPD Finance Minister Olaf Scholz’s official reaction to American complaints is largely in line with that of his longtime CDU predecessor in the office, Wolfgang Schäuble. This tension appears unlikely to resolve. German officials strongly believe US criticisms are unwarranted. And as the 2020 elections draw closer, Trump has a strong incentive to push hard on the trade issue, particularly since his administration’s other potential tools for income redistribution—tax and regulatory policy—have gone in a neoliberal direction.

Some facts appear beyond debate. As detailed below, Germany has sold far more goods than it imports for about a decade and a half. In the past three years, Germany’s surplus has also been the world’s largest in absolute terms, totaling an estimated $300 billion in 2018, compared to the $200 billion of second-place Japan.[[1]](#endnote-1) In recent years, Germany’s trade partners in Europe and the United States have expressed concern that these surpluses partly reflect policy distortions in the German domestic economy, a diagnosis German officials[[2]](#endnote-2) have sought to rebut and reject. It is the nature of this contestation that frames this article, which complements the more quantitative assessment of the German current account elsewhere in this special issue.[[3]](#endnote-3)

Over many years, Schäuble had a well-choreographed mix of explanations and justifications that talked around the surplus and its causes. Schäuble’s stress on fiscal rectitude for the state rarely acknowledged the role of fiscal surplus in boosting Germany’s current account surplus—an important topic covered in this article. In routinely highlighting any German increases in public investment, Schäuble generally left out that these increases would be from levels at or near the bottom of the Organisation for Economic Co-operation and Development (OECD) rankings.[[4]](#endnote-4) He understood such “increases” would be music to the ears of many naive outsiders – after all, persistently low consumption and investment shares make the German economy overly reliant on foreign demand, further boosting the trade surplus. On the consumption side, Schäuble tended to laud Germany’s “effective public redistribution” and “no-cost education systems,” deftly side-stepping the country’s growing inequality, including in education. This inequality is another driver of German’s recent export mania, since household purchasing power has weakened across much of German society (40 percent of Germans have essentially no net wealth at all).[[5]](#endnote-5)

In Scholz’s Finance Ministry to date, very similar themes are evident. He has adopted Schäuble’s formulation that fiscal orthodoxy is a form of “resilience,”[[6]](#endnote-6) and if anything, the state fiscal surplus has been higher under Scholz, soaring to 1.75% of GDP in 2018.[[7]](#endnote-7) Scholz has preferred to limit public comments about the surplus, but when he does address it, it is peppered with neo-Schäublian references to “robust domestic demand” in Germany but also the “expansionary policies of major global trading partners,” thus said to be responsible for their own predicament.[[8]](#endnote-8) The latter formulation captures a widespread view that America’s purportedly insatiable appetite for consumption is a key *driver* of the German surplus—a cause of the surplus and not its effect. Scholz’s statement is interesting and important in two ways. First, and most obviously, it tends to reinforce a discourse—developed in detail below—that the contours of Germany’s current account balance are driven primarily by the private choices of consumers—here, the consumers residing in Germany’s “global trading partners.” Second, however, it raises an important question too often elided in Germany: if American behavior can help cause Germany’s trade surplus, why are German officials so resistant to the companion idea that German behavior can help cause America’s deficits?

Both finance ministers have castigated Germany’s critics as ill-informed for not recognizing real wage increases or the role of the weak euro, as if marginal or cyclical factors can explain (or resolve) a major structural condition of the international economy.[[9]](#endnote-9) After all, Germany’s trade surplus certainly is higher when the euro falls close to the dollar, but it was also quite high when the euro was at $1.50.[[10]](#endnote-10) And a few years of modest German real wage increases, while useful, are far from sufficient to correct Germany’s trade imbalance (let alone reverse it so that the accumulated debts could be repaid).

Against this backdrop, this article explains why German trade patterns reflect policy choices and not simply market outcomes (as German elites well beyond the Finance Ministry persistently maintain). These policies are supported by a particular policy discourse – which I call “normalize and apologize” – that mostly manages to satisfy its supporters and still mollify (or, at least, befuddle) its critics. The next section argues that Germany’s trade surplus has now stretched the apologist’s ability and the apologee’s credulity to their limits, thus accounting for the actions of the U.S. legislative and executive branches in recent years.[[11]](#endnote-11) Trump’s heavy handed and often misguided efforts to confront Germany threaten to reinforce Germany’s master narrative that there is no real problem. The third section seeks to get beyond the two sides’ dueling inanities (“raise wages”/“make better cars”) and foreground a more complex story highlighting the surprising and powerful effects of capital flows to help explain both the intra-European and transatlantic trade disputes. Too many core participants in the debate seem not to understand these capital dynamics, which result mainly from a steep climb in German savings rates and a stagnation in German private and public investment. The conclusion sketches the options the German and American leaders might consider going forward, if the debate were to be made “as simple as possible, but not simpler.” Throughout, the aim is to complement a number of other articles in the special issue by providing readers of *German Politics* with a deeper understanding of why, despite some modest shifts in data and some modest shifts in German rhetoric, this debate is not going away, whether Trump does or not.

1. **The U.S.-German Trade Stalemate: From Obama to Trump**

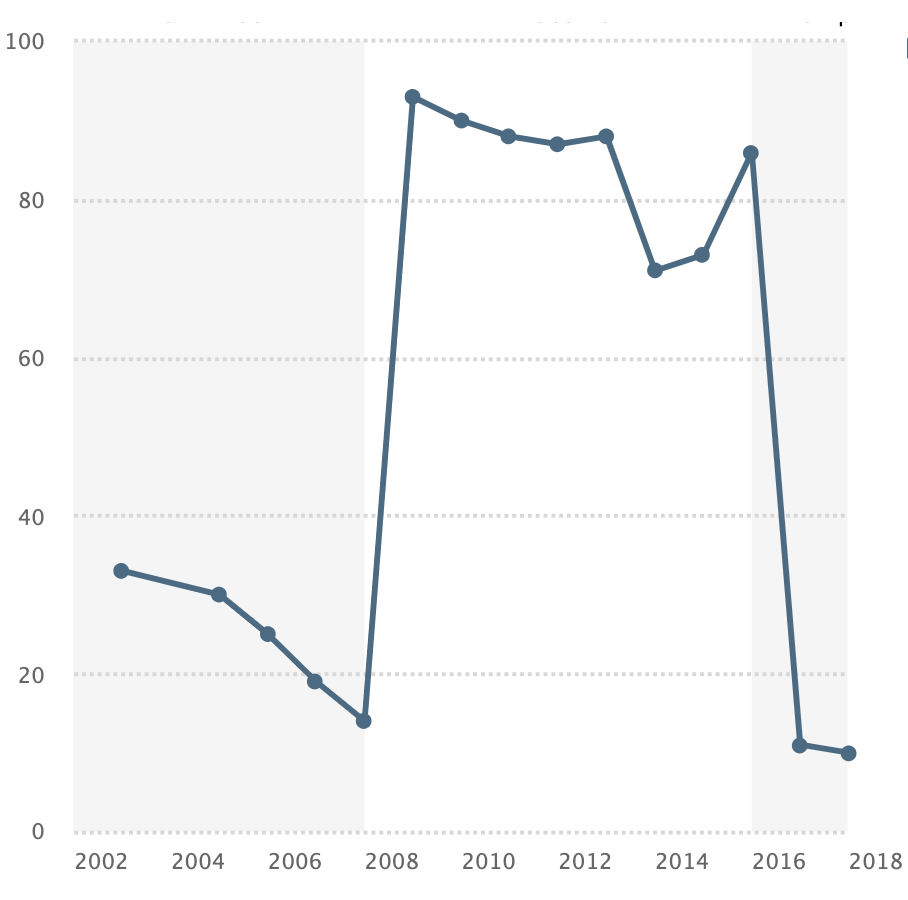
With Trump’s election, it soon became clear that the new U.S. President would lump Germany with states like China and Mexico whose export success he saw as a threat to American prosperity. Over his first two years in office, his reportedly rough personal relationship with Chancellor Merkel had a counterpart in a series of difficult public policy confrontations with Germany over issues as diverse as defense spending, gas pipelines, and the utility of international organizations. In many ways, however, the trade issue has been at or near the front of Trump’s dissatisfaction with Germany and with the EU (whose central role in managing its member states’ trade relationships Trump now appears to understand). As Figure 1 shows, Germany’s current account moved from negative territory – where it had been through much of German reunification – into large surpluses by 2004.[[12]](#endnote-12) Those surpluses subsequently surged again starting in 2006 and have hovered around 7-8 percent of German GDP since 2012.

**FIGURE 1: GERMANY’S CURRENT ACCOUNT, 2000-2018, PERCENTAGE OF GDP**

Source: Trading Economics

But to what extent is this surplus a problem? Because the current US President has low credibility among the German public—an October 2018 Pew Research poll suggested only 10% of German respondents had either “high” or “some” confidence he would make the right decisions regarding world affairs—it is important to establish that at least some of Trump’s core complaints are more widely shared. Thus, it is meaningful that Barack Obama, whom German respondents viewed far more favorably (see Figure 2) also had strong criticisms of German trade and economic policy.

**FIGURE 2: GERMAN PUBLIC OPINION ON US PRESIDENTS, 2002-2018**



Source: Pew Research Center. Figures combine “high” and “some” confidence.

The Obama Administration placed intermittent pressure on Germany to reduce its trade and current account surpluses. This aim intersected with Congressional pressure on countries with large and sustained trade surpluses with the United States and found expression in Treasury Department reports that named Germany as one of six countries of concern. Obama-era worries about German policy comingled with complementary worries about Germany’s central role in managing the long eurozone crisis after 2010, particularly German preferences for austerity and structural reforms to the near-exclusion of demand-side features.[[13]](#endnote-13)

Alongside these concerns about German policy and preferences, however, the Obama team nurtured a very close relationship with Germany.[[14]](#endnote-14) As the indispensability of that partnership became more clear, particularly after the Russian invasion of Eastern Ukraine, U.S. grousing about German economic policy took on the character of ritualized nagging in which Washington continued to make the case for a change in German policy but where that case was not allowed to intrude into a very productive relationship in other areas. These areas included reforming financial regulation, dealing with climate change, and building a sanctions regime against Russia.

Meanwhile, candidate Trump had made trade surpluses vis-à-vis the United States into a central part of his economic message. An inauguration-week interview with *The* *Times* of London and the German tabloid *Bild* (daily circulation: 2.5 million) at first seemed to herald a shift. While Trump seemed to signal that German export surpluses with the United States were not as large a concern as those of China, he still suggested German firms could face 35 percent tariffs on products built in, say, Mexico and imported to the United States.[[15]](#endnote-15) He noted the presence of Mercedes cars in front of “every house on Fifth Avenue” and lamented the lack of Chevys in front of German houses. Trump advisor Peter Navarro, director of the new White House National Trade Council, later referred to Germany as a using a “grossly undervalued euro” to “exploit” the United States and other trade partners.[[16]](#endnote-16)

In a way, the *Bild* interview encapsulated perfectly the stalemate of the Obama years: Trump, consciously or not, was echoing the longstanding U.S. charge that German firms depend too much on external consumption and that the German economy provides too little consumption to benefit others. This time, it was left to Germany’s then-foreign minister, Social Democrat Sigmar Gabriel (on his first day in office), to deliver Germany’s equally ritualized response: America should “build better cars,” he told *The Guardian*.[[17]](#endnote-17) Germany’s Christian Democrats have often delivered the same message, both to the United States and to any of Germany’s European partners with similar concerns about German trade surpluses.[[18]](#endnote-18)

There is a lot at stake in getting it right for a security-exposed, trade-dependent status quo power like Germany. To date, Germany has made things too simple by highlighting the undoubted high quality of its products as its preferred explanation for the surplus. Though this explanation is all that many German newspaper readers need, it is unconvincing. After all, German engineering has always been excellent, so this cannot explain how the country’s firms suddenly built a massive surplus. But neither can the surplus be fixed by raising German manufacturing wages, at least not alone, for changes in wages were only part of the issue in the first place. As German officials have pointed out, real wages have (finally) grown in recent years, and yet the surplus has barely budged. Meanwhile, the Trump Administration, after a period of tariff threats and delays, has put in place tariffs on steel and aluminum while also repeatedly threatening additional tariffs on automobiles.[[19]](#endnote-19)

This article shows that both Germany’s defenders and many of its critics are overly focused on a microeconomic logic of competitiveness. While far from irrelevant, this logic is mediated and often dominated by less obvious, more counterintuitive macroeconomic dynamics. Put broadly, any national economy in an open international order has three primary sources of growth: domestic consumption, domestic investment, and net trade. The case against Germany is that because it now has both low consumption and low investment, it has come to depend on exports for growth.

This, too, is not entirely new. Post-WWII Germany has always used an export-led growth model to some extent. Yet the resulting surpluses were generally low (often under 1 percent of GDP) with surges short-lived (e.g., the late 1980s). What has changed, subtly but surely, are Germany’s demographics, Germany’s wage and wealth distribution, and a number of its policies in the labor, welfare, and fiscal domains. Germany got much older – among major economies, only Japan and Italy are similarly aged – and it now has far more inequality than it used to.[[20]](#endnote-20) Both factors lead to even higher national savings than normal, and both factors also depressed investment. Since extra savings not used domestically are, by definition, exported, this shifts demand abroad, which is reflected in a trade surplus.[[21]](#endnote-21) The introduction of the euro exacerbated these trends. Moreover, Germany also raised taxes on consumption, cut taxes on business and constitutionalized balanced budgets. These choices further depressed domestic incomes and/or increased reliance on demand from abroad. The result is a country that leans very hard on external demand. These policies—far more than the quality of Germany’s cars—have led to a marked shift in its current account.

Before developing that argument more fully later in the article, I first explain why the stalemate over German trade has been so durable. German officials generally stop short of calling American complaints outright illegitimate, while implying they are the natural and inevitable outcome of market forces. Even the few very well-informed German media often make this same error.[[22]](#endnote-22) This is a technique perfected during the long battle over the causes and remedies of the eurozone crisis, a debate that is instructive for the style of argumentation that developed. More specifically, German officials have learned to speak as if all of Germany’s advantages are either the result of structural reforms – and so available to any state that makes similar choices – or unique institutional (e.g., debt brakes) or ideational (e.g., “ordoliberalism”) factors – and so cannot be changed. I call this Germany’s “normalize-apologize” discourse.[[23]](#endnote-23)

1. **Germany’s “Normalize-Apologize” Discourse**

In dozens of interviews on this topic with German diplomats, interest group representatives, civil servants, journalists, and academics, certain patterns emerge that go beyond specific arguments. In this composite picture, German officials often mix two very different messages. The first is that the German economy is basically *just like any other advanced economy*, and the second is that the German economy is *singular*, with its own logic and rules. Thus, there is first a strong tendency to normalize Germany’s economic strengths, suggesting they are simply a more competent version of what every other country does or should do. When pushed to acknowledge that Germany enjoys benefits others do not or when asked to change policies that may have negative effects on Germany’s partners, officials then become apologists, articulating and defending Germany’s purported inability to change.

This pattern goes well beyond the U.S.-Germany dispute over trade. For example, when critics of German policy call attention to the way the euro crisis ultimately made German debt service much more affordable or how the weak euro helped German exports boom or how Germany’s wage restraint in the early 2000s boosted its later competitiveness, German officials stress the normality of Germany and say that these acknowledged advantages are available to any other country that undertakes the necessary supply-side reforms to earn them. This message plays well with the German media and voters.

But when outsiders ask Germany to change, for example, tax or investment policies that depress domestic demand, making Germany reliant on external demand, then singular Germany is emphasized. Apologists argue that Germany cannot increase domestic investment because the state has an unusually small role in investment or has recently constitutionalized debt brakes that further limit its fiscal space or has a set of ordoliberal beliefs that amount to prohibitions on certain policy actions or even “sticky” consumption levels that don’t respond to increased household income. To be sure, many states defend policy on grounds of uniqueness. In another era, Japanese trade officials once resisted American agricultural imports on the grounds that American beef wasn’t right for Japanese intestines.[[24]](#endnote-24) And every state has particular institutions integral to its economic success that it might wisely wish to protect from the grinding homogenization of global competition.[[25]](#endnote-25)

Yet Germany’s apologists are particularly industrious, and their rhetoric goes well beyond protecting unique national institutions. On demographics, for example, they argue Germany’s low birth rate, high dependency ratios, and aging population lead to weak long-term growth prospects and thus naturally dampen domestic investment.[[26]](#endnote-26) Germany, in this view, has no choice but to lean on demand elsewhere: its aging population needs to save for impending retirement, and these savings naturally are invested abroad, where returns are higher.[[27]](#endnote-27) More recently, the Bundesbank has argued that German surpluses are required in order to facilitate excess borrowing by the United States, an argument we return to below.[[28]](#endnote-28)

While this normalize-apologize technique is flexible, its basic implication remains the same: Germany’s strong performance is the result of its boringly normal behavior, while its intransigence in the face of outsiders’ calls for change is the result of a national eccentricity that obliges path dependence and prevents change. The point of this fairly stylized overview is that these arguments work in Germany and for Germany not because they are right or wrong but because they keep the discussion focused on an essentially microeconomic logic of firm-cum-national competitiveness, which simply dominates the debate.[[29]](#endnote-29) It seems as if any combination of good and bad arguments is acceptable so long as the focus doesn’t shift to balance sheet dynamics that are both harder to understand and tell a more problematic story.

But how do these general normalize-apologize tendencies affect, if at all, the German discussion of the current account? In the post-Bretton Woods world of flexible exchange rates, a country’s trade balance was widely expected to move up and down in a roughly systematic fashion. Broadly speaking, the main reason for this has to do with changes in the value of its currency. According to that conventional wisdom, when a country exports more than it imports, demand grows for its currency. After all, if others are to buy more of the exporting country’s products, foreigners will first need more of its currency to make those purchases. Their demand for the exporter’s currency will tend to push up the currency’s price, and this will have the effect of making those exports more expensive and also making foreign goods a bit cheaper and, therefore, more attractive for the exporter’s citizens to buy. In theory, the joint effect of all this is to restore trade to a rough balance. To be sure, with increased global capital mobility, this exchange rate adjustment mechanism has clearly weakened as many more factors affect currency values.[[30]](#endnote-30)

Still, even with those caveats, it is unusual that the German surplus has been so large for so long. In particular, the size of the goods surplus has jumped substantially after 2003 (see Figure 1). Why has there been no downwards adjustment? A central factor is that because Germany is in a currency union, there is no monetary mechanism strong enough to put downward pressure on their national trade balance. The market signals from Germany’s large surplus are drowned out by stronger mechanisms that push the euro lower, including quantitative easing, low interest rates, and struggling eurozone economies. With this important feedback linkage now impaired or broken, German exports can boom and yet the euro falls still further, leading to even more exports. The low euro means Germany is not alone in running a trade surplus. Thus, even France and struggling Italy typically run large (> $20 billion) annual goods trade surpluses with the United States.

All this helps explain why it did not take a Trump victory for the United States to grow skeptical of large increases in its current account deficit. Alongside a spate of domestic causes, U.S. officials also looked abroad for relief. In 2015, the U.S. Congress passed a Trade Facilitation and Trade Enforcement Act that called for closer monitoring of America’s trading partners. Section 701 of the Act obliged the administration to report to Congress on any trade partners that: 1) had a significant bilateral trade surplus with the United States, later defined as at least $20 billion; 2) had a current account surplus of more than 3 percent of GDP; and 3) engaged in “persistent one-sided intervention in the foreign exchange market.”[[31]](#endnote-31)

Germany is one of six economies (along with China, Japan, South Korea, India, and Switzerland) that have met at least two of these criteria (none has yet been judged to meet all three).[[32]](#endnote-32) In Germany’s case, the trade surplus with the United States and the material current account surplus have been cited in all the semi-annual Treasury reports issued by the Obama and Trump administrations. The existence of a European single currency raises the issue of whether Germany could, even in principle, be found in violation of the third criteria. It appears that the answer is yes: ‘For the purposes of Section 701 of the 2015 Act, policies of the ECB [European Central Bank], which holds responsibility for monetary policy for the euro area, will be assessed as the monetary authority of individual euro area countries.’[[33]](#endnote-33) While this interpretation remained unchanged across the two US administrations, both have noted that the ECB has not intervened substantially on foreign exchange markets since its coordinated effort to do so after the 2011 Japanese earthquake.

On the other hand, the ECB has other levers that affect currency values, and the U.S. statute could open the way for the Trump administration to choose a different metric than widespread euro sales. Indeed, the Obama team had made clear in its own 2016 *Report to Congress* that the criteria are subject to interpretation according to “circumstances.”[[34]](#endnote-34) Thus, Navarro’s “exploitation” comments represented an escalation of tensions already present in the late Obama years, while Trump’s threats to impose auto tariffs come on the heels of the steel and aluminum tariffs in place (for the EU) since June 2018. With trade now clearly at the heart of the US-German relationship, experts on both sides of the Atlantic should take more account of *macroeconomic mechanisms* that bear directly on the tensions over the German current account surplus.

Instead, as noted, the bulk of the German discourse has a microeconomic focus that often violates Einstein’s famous principle that “everything should be made as simple as possible, but not simpler.” At worst, German officials posit the crudest versions of their critics’ position and then label them crude, feeding the media’s popular “virtuous Germany” framing for its economic reporting. Two oversimplifications are particularly pernicious and widespread. First, German officials—most famously, the Chancellor with her “Schwabian housewife” remark—sometimes compare a state’s fiscal situation to a household that must always balance its budget – never mind that states don’t incur debt for similar reasons, service it in remotely similar ways, or even need to pay it all off (as households do). In the Eurozone, state fiscal situations in the early 2000s tell us little about their levels of economic misery post-2008, as fiscally virtuous Spain and Ireland—with public debt levels far below those in Germany—ended up with massive levels of public debt from bailing their banking systems.[[35]](#endnote-35)

A second unhelpful analogy is between the national trade “competitiveness” and the competitiveness of an individual firm. If firms must strive for competitiveness, why shouldn’t states do the same?[[36]](#endnote-36) For example, Bundesbank President Jens Weidmann – a candidate to succeed Mario Draghi as ECB President in October 2019 – has likened any call for Germany to address its current account surplus to trying to “improve professional soccer by weighing down the players with backpacks.”[[37]](#endnote-37) Of course these “rectitude and competitiveness” slogans are just the public face of more complex judgments, and yet even more complex and detailed accounts foreground the same basic points.[[38]](#endnote-38)

So are German officials making this too simple? Yes. The German current account surplus really does cause problems for others but *not* in the way most often asserted. Instead, German trade flows are a symptom – not really a cause – of disruptive trends in the global economy that include Germany but also go well beyond Germany. The German claim that their success is driven mostly by their national competitiveness is something of a red herring. In other words, “making better cars” is neither how Germany really built these surpluses nor how the United States can reverse them. The Volkswagen scandal notwithstanding, Germany has always made good cars (and good machine tools). Yet the country never saw export surpluses like these until the mid-2000s. Thus, there must be more factors than (consistently) strong products and (intermittently) weak euros. And indeed there are, but they exist at the macroeconomic level and in ways that are only very partially grasped by German voters and German politicians.

1. **The Capital Flows Paradigm Meets “Normalize-Apologize”**

One important scholarly conversation has not yet been subject to the full “normalize and apologize” routine. Instead, it has been largely ignored until recently, because the ideas are counterintuitive and intrinsically hard to follow but also because its message is unwelcome in Germany. As indicated above, this alternative view holds that Germany’s disruptive policies are best appreciated through the light of capital flows and not, as in the competitiveness debate, through trade (current account) flows.[[39]](#endnote-39) This perspective sees trade surpluses not as the result of cost control and great products alone but the necessary complement of capital outflows, whose causal weight can “dominate” the trade balance in the age of financial globalization. Trade surpluses are not a sign of a country “winning,” as the annual celebratory *Exportweltmeister* stories in *Bild* often imply. They are, instead, often a sign of major mismatches in a country’s savings and investment rates.

This section unpacks these difficult ideas and applies them to the German surplus debate. Because the debate on capital flows straddles the disciplines of economics and political science—without being truly at home in either field—this article introduces the main claims in detail before turning to the evidence. We begin, however, with one key data point: the spike in German national savings, which grew from roughly 21 percent to 28 percent of German GDP during the period in question (2003-2017). Why should it matter to others how much Germany saves? Because if not invested at home, those national savings flow abroad, where they can have unanticipated knock-on effects. Since global savings and investment *must* equal one another by definition, savings *increases* in one country or region logically *must* be matched either with investment growth (there or somewhere else) or by savings *declines* somewhere else.[[40]](#endnote-40) Broadly, Germany is one of a number of countries, including China, Japan, and South Korea that are now saving far more than they are either consuming or investing. After all, net of trade, a country’s GDP is merely the sum of its public and private consumption and investment. And, since all GDP is income for the nation’s residents, another way of putting this is that GDP is the sum of consumption and savings – the two things people can do with their income. Countries that decrease consumption then *must* increase savings; a euro not spent is a euro saved.

What happens to those additional savings? Most obviously, they could be invested at home through either public or private channels. As we will see, this is not happening in Germany. The other option then is for such savings to flow abroad to countries with open capital accounts. When they do so, according to macroeconomic theory, they can be conceived as going to a country with a trade deficit, whether directly or indirectly. Indeed, another way to understand a country’s trade surplus is that it is (and must be) exactly equal in size to its investment deficit.[[41]](#endnote-41) The literature on capital flows foregrounds the importance of this relationship and spells out a number of its counterintuitive and often unwelcome results, including how difficult it is for countries to deal with unwanted capital inflows when their current investment needs could largely be covered without foreign capital.

Thus, where German apologists claim Germany’s trade surplus is simply the aggregate result of free consumer choices, this approach insists it is mostly the result of Germany’s capital outflows, which themselves are the result of policy choices, especially those that shift national income from consumers to firms (as profits or capital subsidies) or government (as budget surpluses). Global capital flows have their own logic and have now grown to dwarf trade flows. Scholars such as Michael Pettis have shown that countries that persistently save more than they invest, are often troublesome, either regionally or globally or both.[[42]](#endnote-42)

Of course, capital inflows can be positive.[[43]](#endnote-43) If and when the rest of the world needs a country’s excess savings, this can lead to productive investment and a win-win scenario. This positive scenario characterizes, for example, the U.S.-UK relationship in the 19th century, when America needed capital but tended not to save it, in part because of the parlous state of American banking. Britain had plentiful capital and so ran a big trade surplus with the United States, exporting both goods and, necessarily, its excess savings to the mutual satisfaction of both sides.

But with free capital flows a part of EU rules and the liberal international order, states have few mechanisms for stopping inflows.[[44]](#endnote-44) The inflows, if they cannot be used productively, generate problems for receiving countries. How? Since savings must, again by definition, match investment, those inflows that aren’t invested must generate lower savings in the receiving country. There are two main ways this happens: either through an (unsustainable) consumption boom or an (unfortunately quite sustainable) increase in unemployment.[[45]](#endnote-45) Consumption decreases savings by increasing debt; unemployment causes savings to shrink as people live off past earnings. Of course, German capital flows are not the only contributor to consumption booms and unemployment in Southern Europe or the United States. The problem is that the German debate rarely acknowledges how disruptive they can be.[[46]](#endnote-46)

What German policies most contributed to these outcomes? Mechanisms that redistributed income away from lower-saving households to higher-saving businesses included Germany’s Hartz reforms,[[47]](#endnote-47) regressive social security taxes,[[48]](#endnote-48) low and declining business taxation,[[49]](#endnote-49) and rising consumption taxes (the latter under Merkel). All three pushed down household shares of national income and thus pushed up national savings rates, primarily in the form of business profits and government surpluses.[[50]](#endnote-50) Meanwhile, Germany’s public and private investment lagged,[[51]](#endnote-51) and the push factor of transnational banking,[[52]](#endnote-52) combined with the pull factor of less-developed Southern states seeking Northern capital, sent these funds abroad.[[53]](#endnote-53)

Early on, the excess German savings flowed primarily inside the new eurozone, because its single (low) interest rate coupled with higher inflation in the South meant real interest rates in the South were especially low, giving borrowers there stronger incentives.[[54]](#endnote-54) The resulting capital inflows initially funded many sensible projects, but the lending boom gathered strength as wealth effects drove up collateral prices. Borrowers showed little inclination to stop this boom, and given eurozone rules, states could not legally stop these capital inflows had they wished to. While any given Southern European citizen could say “no” to loans at very low real rates – and millions did say “no” – national policymakers could not stop them from accessing this capital, freely offered by other eurozone banks. And once the credits were accepted, the savings thus displaced were then, by definition, turned to consumption, causing a trade deficit for the country importing capital. German exporters soon began to feast on the dynamic sparked by these capital outflows.[[55]](#endnote-55)

But despite these European peculiarities, the same problems result from unneeded capital inflows in countries that are ideologically inclined to ease such inflows and to consider them unproblematic. As Pettis summarizes the case, a scenario similar to Europe’s:

“…is exactly what seems to have happened to the global economy. As savings were forced up structurally, whether because of rising income inequality or a declining household share of GDP, the system responded in ways that were sustainable (increases in productive investment) and in ways that were unsustainable (rising inventory in China, increases in speculative investment in the US, China, and Europe, and increases in credit-financed consumption in the US and southern Europe). At some point excessive debt eliminated all the unsustainable ways, and we were forced into accepting the remaining sustainable way, which is an increase in unemployment.”[[56]](#endnote-56)

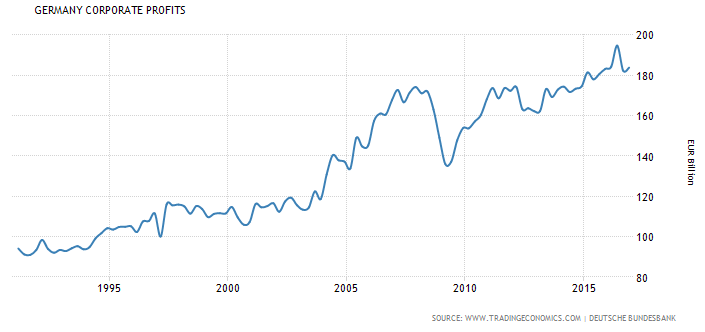
This approach does three things unusual in the German debate. First, it links a borrowing binge in other parts of Europe to a prior German savings binge that generated capital well beyond Germany’s investment needs. Second, it denies that foreign borrowers had legal alternatives to accepting Germany’s imported capital. And third, it links German export sales to consumer demand that Germany must import from abroad precisely because it has taken policy steps to deny itself the capacity to consume its own product (or an equivalent amount of foreign products in the form of imports). Here, capital flows are made the dog and trade flows the tail that gets wagged. Engineering and high-quality products are demoted as the key factor explaining German export success. And low German wages become problematic not primarily because they “undercut” other states but because they are part of a whole range of policies that, together, depress German consumption and imports and, instead, import demand from other states. Moreover, Germany’s much-lauded foreign direct investment (FDI) in the American automobile sector becomes only part of a larger story in which much of the capital finds much less productive – often damaging – outlets. This approach is counterintuitive and much harder to summarize in pithy microeconomic analogies about housewives and firms.

What do German officials say about this cluster of ideas? Very little. When pushed, some German economists will acknowledge the high savings as part of a demographic trend, but they typically insist that German capital outflows help solve the “savings-investment mismatch” in *other* states.[[57]](#endnote-57) Meanwhile, while many German politicians characterize high German savings as a positive contrast to low American savings, they seem unaware of the idea that the two trends could be causally linked with the result harmful to the U.S. economy. Several well-connected political figures have acknowledged in background interviews that these mechanisms are not part of their conversations about the trade surplus and that they have never heard them. Moreover, capital flows analyses issues play no prominent role in most German economic reporting.[[58]](#endnote-58) Instead, most journalists damn the concern with domestic demand as “crude Keynesianism” when in fact a focus on capital flows draws much of its inspiration from firm-based balance sheet approaches.

Turning to the evidence, the data behind a capital flows-focused approach is compelling, as it shows an important shift in the German economy commensurate with the onset of the trade surplus in 2003.[[59]](#endnote-59) Consider the following trends, bearing in mind the central causal claims that a) policies can shift income from households to firms (or governments), thus increasing savings rates, either by growing profits or paying down debt; and b) that other policies can directly and indirectly affect investment rates: Between 2003 and 2016, German final consumption fell from 76.6 percent of GDP to 73.3 percent, private consumption fell from 57.7 percent to 53.6 percent, and household consumption showed an even more impressive drop from 56.1 percent to 51.8 percent. Over the same period, total domestic demand fell from 96.3 percent of GDP to 92.5 percent. Individual consumption fell from 69.3 percent to 66.4 percent. As consumption falls, we expect savings increases, which indeed jumped sharply. Net domestic savings more than doubled, from 4.1 percent of GDP to 10 percent over the period, and, as noted at the top of this section, gross savings jumped from 21.1 percent to 27.7 percent.

Also consistent with this approach, German investment fell. Roth and Wolff show that private gross fixed capital formation fell from 22 percent in 1991 to 18.1 percent in 2017. Private net investment fell even more sharply over this period—from 8.5 percent to 12.8 percent. Gross government investment remained roughly stable across the period at 2.1 percent (with a blip around the 2009 crash), though, as noted, this is well below the OECD average. But net public investment actually fell in absolute terms since 2003, despite a 30% larger German economy over that period.[[60]](#endnote-60) With public investment, at best, stable at low levels, private investment declining, and government and corporate savings way up, Germany’s net lending abroad surged from 1.7 percent of GDP to 8.6 percent. As indicated in Figure 3, one key to the increase in German savings is the sharp rise in German corporate profitability.[[61]](#endnote-61) German corporate taxes are the fourth lowest in the OECD, whether measured as a share of GDP or of corporate profits, having fallen markedly faster than in most OECD countries.[[62]](#endnote-62) Again, the sharp increase in corporate profitability around 2003-2004 is consistent with the timing of the onset of Germany’s current account boom and entirely consistent with the broad causal mechanisms of the capital account approach to trade. The difference between national savings of 21 percent and 28 percent in a $3.5 trillion economy is $245 billion, which is (as it must be) very close to Germany’s 2015 current account surplus of €257 billion.

**FIGURE 3**



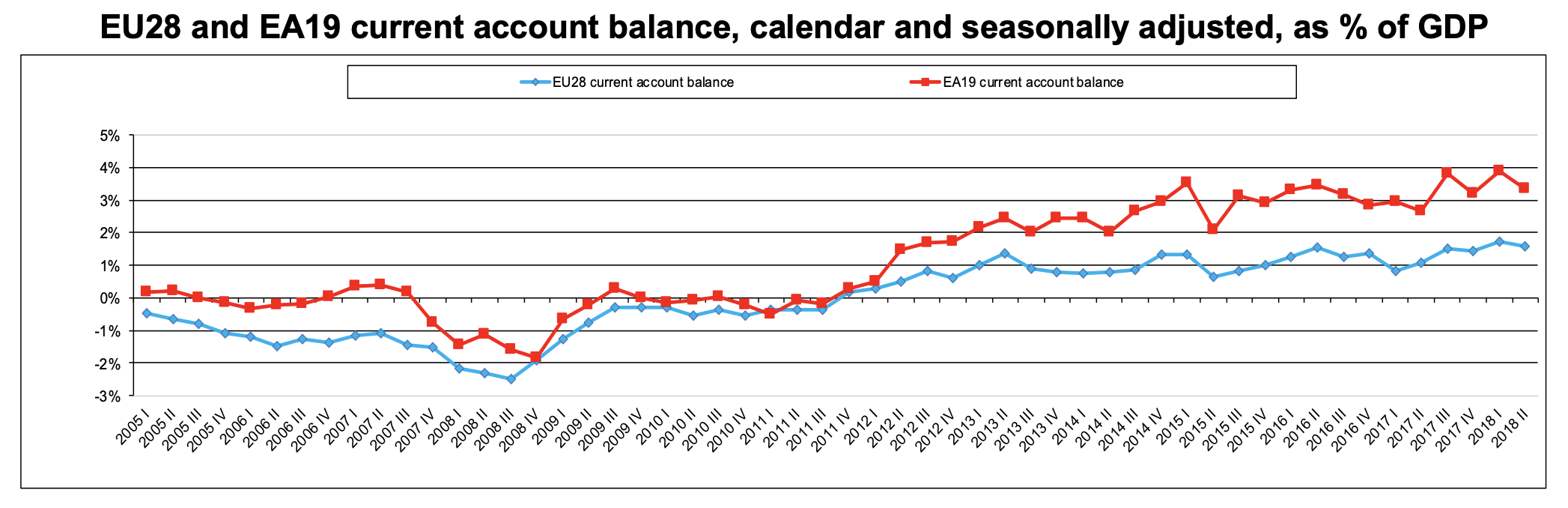
Source: Trading Economics, <http://www.tradingeconomics.com/germany/corporate-profits>.

While many German economists clearly do understand these linkages,[[63]](#endnote-63) apologists in high places continue to play down their relevance, deny them altogether, or insist the state can do nothing about them.[[64]](#endnote-64) For example, the Bundesbank’s reports on the German balance of payments go to extraordinary lengths to ignore the connections noted above between capital and current accounts. For example, the 20-page 2015 report never mentions the basic identity of current and capital accounts for lay readers, consistently uses both prose and charts to obscure any connection between the two, and cites none of the academic debates that show capital outflows can be disruptive.[[65]](#endnote-65) The report never mentions the word “savings,” and doesn’t report on German portfolio outflows – by far, the largest component of the capital account – until an extended section dominated by the purported ills of the ECB’s quantitative easing program. In short, the Bundesbank report ignores the issues raised here and is structured in a way that helps readers stay focused on the microeconomic paradigm of competitiveness.[[66]](#endnote-66)

The capital flows account gives both reasons and evidence to think that Germany’s current account surplus is being driven, at least in part, by the surge in German savings relative to the stagnation of German investment. And it undercuts the implicit German official position that trade flows are primarily the result of the competitive strength of German firms combined with free choices of global consumers. Instead, Southern Europe’s problems arose not primarily from too little “competiveness” but from too much foreign capital. Contrary to the competitiveness mantra, it is thus pointless to look for major solutions in structural reforms aimed to “restore competitiveness” of particular sectors. And contrary to the fiscal rectitude mantra, the real issue is the lacking aggregate demand in Europe and particularly the South.[[67]](#endnote-67)

How does all this intersect with the techniques of “normalize and apologize”? First, by helping push internal devaluation in the eurozone (along with other Northern allies), Germany has helped make current account surpluses the “new normal” in Europe. On the eve of the global financial crisis, 20 of 28 EU states had a current account *deficit*, and 7 of these national deficits were more than a whopping 12 percent of GDP.[[68]](#endnote-68) Today, these figures have dramatically reversed, with 21 of the 28 current member states in *surplus*. Of the 7 states running a deficit in 2017 (latest available Eurostat data), all were small deficits (e.g., less than 1 percent), except for Romania (3.2 percent), the UK (3.3 percent), and Cyprus (8.4 percent). As indicated in Figure 4, while these aggregate surpluses have only appeared since 2012—before that the EU generally ran a deficit—the surpluses have averaged above 1 percent since 2013 for the entire EU and above 3 percent for the Euro-area.[[69]](#endnote-69)

**FIGURE 4**



Source: European Commission, 2018

This pattern of broader aggregate current account surpluses is bound to lead to conflict with the outside world almost independent of who the U.S. president might be. As that broader conflict takes shape, Germany’s apologists are running out of credible answers. The more widespread the behavior, the harder it is to sell the apologists’ message of German exceptionalism. The larger number of European countries whose trade profiles start to look more like Germany’s, the less plausible is the claim of difference.

As US pressure on bilateral trade patterns has increased, Germany’s apologists have come up with new retorts. Recent Bundesbank reports have built on earlier arguments that increased German *public* *investment* would make little difference to other Euro-area economies[[70]](#endnote-70) to make a different point that higher German *domestic* *demand* would have little spillover to the United States.[[71]](#endnote-71) These models focus on the spillover of additional German purchases of US goods and services.[[72]](#endnote-72) As noted above in the discussion on the Eurozone, such models typically do predict modest spillovers. But because these models do not account for the theorized negative effects of foreign capital on the US, the story they tell is partial and misleading.[[73]](#endnote-73)

Indeed, the Bundesbank insists that the US current account deficit is “solely attributable to government borrowing requirements” (83). In other words—and consistent with a longer line of apologetics noted earlier—the Bundesbank economists appear to assume that US *needs* foreign savings to finance its deficit, rather than seeing US fiscal deficits as an effort to sustain employment in the unexposed service sectors as a consequence of intense pressures for US savings rates to fall and accommodate substantial inflows of foreign capital. Given this perspective, it is not surprising the Bundesbank finds no grounds for concern about German capital exports and indeed continues to characterize such exports as both positive and necessary for the US. At minimum, we can say that the alternative proposition—that unneeded German capital often has pernicious effects in a non-capital constrained economy like the US—is not seriously considered either in the model or the discussion.[[74]](#endnote-74)

The Scholz Finance Ministry seems as determined to deny the central role of domestic institutional change in causing the surplus as the Schäuble Ministry ever was. The reforms resulting in lower labor income shares predate the Hartz reforms: in the early 1970s, German service sector wages were 95 percent of those in manufacturing. Already by the mid-2000s, they were down to 65 percent.[[75]](#endnote-75) Combined with a large tax wedge on labor and increased consumption (value-added tax) taxes in 2007, the purchasing power of much of German society weakened, as shown above. Little wonder, then, that German firms now rely heavily on external demand. Stepping back a bit, behind the exotic gloss of German institutions and ordoliberal pieties, it’s not hard to recognize the contours of the familiar export-led developmental model of East Asia, with its repressed savers, low domestic consumption shares, and a range of subsidies for exporting industries.[[76]](#endnote-76)

Moreover, when others point out that Germany’s policies (intentionally or unintentionally) now redistribute income from those who spend more to those who save more and that Germany’s recent savings-investment gap is creating much larger unwanted external investment flows that aren’t being used productively abroad and so are leading to higher unemployment and higher fiscal deficits, Germany’s response that it doesn’t believe in Keynesianism isn’t a good enough answer. It is not necessarily Keynesian to worry about the scarcity of demand, indeed it is economically illiterate not to.[[77]](#endnote-77)

**IV. Which Surplus, Which Germany?**

This article’s title, “Surplus Germany,” has a double meaning. It refers to Germany’s massive and sustained goods trade surplus and to the contentious arguments behinds its causes and persistence.[[78]](#endnote-78) Germany and the United States are currently stuck in an unhelpful debate in which their publics are being plied with shallow and superficial explanations of the international political economy. There is a more interesting debate among political economists. It addresses capital surpluses, and its answers are worthy of sustained engagement by German officials. In both “surplus debates,” it seems increasingly unlikely that Germany’s “stand pat” answer is going to serve the country in the long run. As more European countries are added to a substantial list of Asian countries shifting resources away from domestic households (who consume much of their income) to firms (who often sit on mountains of cash), a rising number of countries are thus chasing scarce demand abroad. Rising global inequality further exacerbates the problem.

“Surplus Germany” can also, however, refer to too much Germany – too much advice, too much self-confident prescription, too much protestation of innocence or impotence, and too much evasion.[[79]](#endnote-79) For a long time, Germany’s official response to complaints about its current account surplus was a form of “we shouldn’t.” Essentially, *We shouldn’t take any policy steps to address trade because outcomes reflect product prices and quality and free consumer choices and nothing else*.[[80]](#endnote-80) Over time, German officials have instead increasingly stressed, “we can’t.” *We can’t help that our population is aging. We can’t help that our business class prefers to invest abroad and not at home. We can’t help that wage dualism is growing fast. We can’t invest on behalf of our municipalities.*

Yet even in a capitalist economy, there remain ample levers for the German state to do much more – a point both CDU-led and SPD-led Ministries of Finance surely recognize with their periodic efforts to publicize increases in real wages, the introduction of the minimum wage, deliberations about minimum pensions, or plans for future increases in education and public investment (again, from relatively low levels). But this is almost always about “normalizing” what’s already been done. The message seems to be: *We can’t affect wages, but the real wage increase this year was large, so stop complaining*.[[81]](#endnote-81) When asked to make real commitments to follow the EU’s rules and its own laws – both of which arguably commit the country to striving for balanced trade – German officials then often seem to move well past “we shouldn’t” and “we can’t” and simply say “we won’t.” Meanwhile, those economists who see the link to capital flows tend to portray Germany as the victim because its foreign investments often lose money, which of course they occasionally must if funding risky investments by sending capital to places that are not capital constrained.[[82]](#endnote-82) The German distaste for Donald Trump likely strengthens all these inclinations.

What policy steps might resolve this miserable standoff? While many useful lists of prescriptions are already available,[[83]](#endnote-83) the key priorities of increasing investment and boosting the incomes (and, hence consumption) of lower income classes bear brief repetition: in addition to the helpful steps just noted, the government urgently needs to 1) reduce taxes on labor and consumption (such as value-added tax), 2) take a much more aggressive stance that moves public investment from the low end of the OECD to the higher end, and 3) find ways either to reduce soaring savings rates or improve the investment climate for firms. Special investment funds – such as that already envisioned for transportation – might also be established for schools and hospitals. Nearly 60% of respondents in a survey of German business noted negative effects from inadequate road or rail infrastructure.[[84]](#endnote-84) Minimum pensions could be established. Investments in refugee training, housing, and medical care could be enhanced substantially. Germany could more aggressively take the lead in European-wide initiatives in defense, refugee integration, border protection, and research and development.

The problem is that much of this policy agenda has been repeatedly rejected in Germany as unnecessary or unwise, even as the government’s 2018 fiscal *surplus* comes close to 2% of GDP. Thus, what’s really required is a shift in understanding of the deeper roots of the current mess, which is what this article has tried to provide. What’s required, in short, is an end to the pernicious fiction that German policy choices had and have little to do with the imbalances that already exist. German officials must see that the more European states follow variants of the German recipe, the harder it is politically to “normalize” the resulting trade surpluses and extra-EU imbalances, including with the United States.

Moreover, it is harder to apologize when your purported national peculiarities – such as aging societies, pay-as-you-go welfare systems, and rising inequality – turn out to be the same things many other states are struggling with. When Germany’s solutions to these problems have big negative effects on others – and they do – the “normalize and apologize” tactics reach the end of their utility. And this is what has now happened. As bizarre as the actual *form* of the Trump administration’s complaints might be, they *are* driven by a deep truth: Germany’s surplus is disruptive, it has roots in domestic (and euro-area) policies, and if the policies changed, so would the size of the surplus.

To be sure, one can be sympathetic to the predicament of German elites. Their challenges are very real. They live in an echo chamber in which there are few alternative voices and no real debate on economic policy and thus little electoral incentive to understand and address Germany’s real position. Moreover, Germany *already* redistributes a lot of income, among the highest levels in the OECD.[[85]](#endnote-85) Its population *is* getting old. Its labor force *is* shrinking. Its educational inequality *is* high. Its innovation culture *has not* broken into new sectors. Its path to higher investment *is* blocked by unclear energy policies on one end and, on the other, by a mismatch between investment needs and investment competence among the levels of government. German officials are absolutely right to insist that their country has important weaknesses that are often missed by outsiders consumed with their own problems.[[86]](#endnote-86) Yet none of these very real dilemmas justifies their self-serving narrative on trade and denial of the role their capital outflows play in *causing* problems in countries legally obliged not to restrict them.[[87]](#endnote-87)

As we have seen, the German government generally addresses criticisms – from inside and outside the eurozone – with roughly the same answer: *our success proves we are right*. This is what really has to change in Germany. German elites (to start) must begin to debate amongst themselves the terrifying proposition that some of their critics are right: that Germany’s success, far from being a model for others, is both derivative of other countries’ misfortune in some important ways and, if widely emulated, will lead to the breakdown of the international system upon which Germany – more than almost any other country – is utterly dependent. The time for Europe’s reforms stopping at Germany’s borders has to end.

1. C. Jones, “Germany on Course for World’s Largest Current Account Surplus,” *Financial Times*, August 20, 2018. [↑](#endnote-ref-1)
2. While this article contains many citations to the views of specific German officials, it also attempts to build something of a composite picture of German views on the trade account. To do so, it draws on dozens of conversations in Washington DC and Germany over the past three years with a wide range of German officials. Some of these were formal interviews, but some occurred in the context of debates in Germany around roughly two-dozen lectures given there during the past two years. In addition to policy makers, these discussions extend to editorial boards and other press, chambers of industry and commerce and representatives of German industry in the United States. A list of interlocutors is available on request. [↑](#endnote-ref-2)
3. Xxx and yyy, 2019. [↑](#endnote-ref-3)
4. For example, W. Schäuble, “International Monetary and Financial Committee Statement,” April 22, 2017, <http://www.imf.org/External/spring/2017/imfc/statement/eng/deu.pdf>, pp. 2-4. [↑](#endnote-ref-4)
5. M. Fratzscher, *Verteilungskampf: Warum Deutschland immer ungleicher wird* (Munich: Carl Hanser Verlag, 2016). See also O. Nachtwey, *Germany’s Hidden Crisis: Social Decline in the Heart of Europe* (London: Verso, 2018). [↑](#endnote-ref-5)
6. See O. Scholz, “IMFC Statement,” April 20-21, 2018 available at https://www.imf.org/External/spring/2018/imfc/statement/eng/deu.pdf. [↑](#endnote-ref-6)
7. https://www.marketwatch.com/story/germanys-budget-surplus-set-to-soar-this-year-2018-12-06. [↑](#endnote-ref-7)
8. O. Scholz, “IMFC Statement,” October 12-13, 2018, P. 3 available at https://meetings.imf.org/~/media/AMSM/Files/AM2018/IMFC/deu.ashx. [↑](#endnote-ref-8)
9. For Schäuble, see CNBC, “CNBC Exclusive: CNBC Transcript: German Finance Minister Wolfgang Schauble Speaks with CNBC’s Michelle Caruso-Cabrera Today,” April 20, 2017, <http://www.cnbc.com/2017/04/20/cnbc-exclusive-cnbc-transcript-german-finance-minister-wolfgang-schauble-speaks-with-cnbcs-michelle-caruso-cabrera-today.html>. For Scholz, see O. Scholz, “IMFC Statement,” October 12-13, 2018, p. 2 available at https://meetings.imf.org/~/media/AMSM/Files/AM2018/IMFC/deu.ashx. [↑](#endnote-ref-9)
10. Similarly, the surplus has also been extremely high with oil around $50 a barrel – but was still plenty high with oil at $110 a barrel in 2014. [↑](#endnote-ref-10)
11. And picked up on by the Finance Ministry. See L. Schuknecht, “Schäubles Chefvolkswirt verteidigt deutschen Exportüberschuss,” *Frankfurter Allgemeine Zeitung*, February 23, 2017, <http://www.faz.net/aktuell/wirtschaft/wirtschaftspolitik/exportueberschuss-von-deutschland-wird-stark-kritisiert-14890840.html>. [↑](#endnote-ref-11)
12. Technically, the current account is more than just trade. It is a country’s net balance in traded goods and services, net income on its overseas investments, and net “transfers” (things like remittances, grants, or tax payments that have no quid pro quo). Of these components, however, the trade portion is, by far, the largest. The trade account also closely approximates Germany’s current account since the other components (small deficits in trade in services and remittances and a small surplus in secondary income) usually balance each other out. [↑](#endnote-ref-12)
13. J. Furman, “The New View of Fiscal Policy and Its Application,” as delivered at the Conference on “Global Implications of Europe’s Redesign,” New York, NY, October 5, 2016. [↑](#endnote-ref-13)
14. F. Bozo, S. Fröhlich, W. Jacoby, H. James, M. Kimmage, H. Kundnani, Y. Mounk, T. Reinert, M. E. Sarotte, S. F. Szabo, and H. Tworek, “Suspicious Minds: U.S.-German Relations in the Trump Era,” Transatlantic Academy, May 2017, <http://www.gmfus.org/publications/new-report-trump-administration-must-cooperate-europe-germany-needs-creatively-boost>. [↑](#endnote-ref-14)
15. M. Gove and K. Diekmann, “Full transcript of interview with Donald Trump,” *The Times*, January 16, 2917, <http://www.thetimes.co.uk/article/full-transcript-of-interview-with-donald-trump-5d39sr09d>. [↑](#endnote-ref-15)
16. S. Donnan, “Trump’s top trade adviser accuses Germany of currency exploitation,” *Financial Times*, January 31, 2017, <https://www.ft.com/content/57f104d2-e742-11e6-893c-082c54a7f539>. [↑](#endnote-ref-16)
17. P. Oltermann and A. Luhn, “Germany hits back at Trump criticism of refugee policy and BMW tariff threat,” *The Guardian*, January 16, 2017, <https://www.theguardian.com/world/2017/jan/16/germany-hits-back-at-trump-criticism-of-refugee-policy-and-bmw-tariff-threat>. [↑](#endnote-ref-17)
18. See e.g., Schäuble, “International Monetary and Financial Committee Statement,” 2017. [↑](#endnote-ref-18)
19. A. Rappeport and J. Ewing, “As Trump Threatens Car Tariffs, Europe Prepares to Strike Back,” *New York Times*, November 14, 2018. [↑](#endnote-ref-19)
20. Fratzscher, *Verteilungskampf*. [↑](#endnote-ref-20)
21. Excellent introductions to these dynamics are M. Pettis, *The Great Rebalancing: Trade, Conflict, and the Perilous Road Ahead for the World Economy* (Princeton, New Jersey: Princeton University Press, 2013); E. Jones, “Shifting the focus: The new political economy of macroeconomic imbalances,” *SAIS Review*, 29(2), (2009), pp. 61-73. S. Tilford, *German Rebalancing: Waiting for Godot?* London: Centre for European Reform, March 2015, http://www.cer.eu/sites/default/files/publications/attachments/pdf/2015/10368\_09-cer-waiting-for-godot-updatekm-11003. Pdf. Econometric studies that show the relative contributions of savings and competitiveness in German trade patterns include R. Kollmann, M. Ratto, W. Roeger, J. in’t Veld, and L. Vogel, “European economy: What drives the German current account? And how does it affect other EU member states?,” European Commission Report, *Economic Papers*, vol. 516, April, 2014, <http://ec.europa.eu/economy_finance/publications/economic_paper/2014/ecp516_en.htm>. [↑](#endnote-ref-21)
22. For example, *Handelsblatt’s* Andreas Kluth, who clearly understands the savings-investment dynamics far better than the average journalist (let alone the average politician), consistently attributes these imbalances to “voluntary decisions by free agents.” See A. Kluth, “Let’s Not Infantilize Germany’s Trade Surplus,” *Handelsblatt Today*, July 14, 2017. [↑](#endnote-ref-22)
23. “Apologize” is meant in the sense of “apologist,” someone who explains away apparently damaging evidence. [↑](#endnote-ref-23)
24. C. Haberman, “Japanese are special types, they explain,” *The New York Times*, March 6, 1988, <http://www.nytimes.com/1988/03/06/weekinreview/the-world-japanese-are-special-types-they-explain.html>. [↑](#endnote-ref-24)
25. R. Bronk and W. Jacoby, “Uncertainty and the Dangers of Monocultures in Regulation, Analysis and Practice,” Max Planck Working Paper 16/6, March 2016, <http://eprints.lse.ac.uk/66562/>. [↑](#endnote-ref-25)
26. G. Felbermayr, C. Fuest and T Wollmershäuser, *The German Current Account Surplus: Where Does It Come from, Is It Harmful and Should Germany Do Something about It?* Munich, July 2017 (EconPol Policy Report Number 2/2017). [↑](#endnote-ref-26)
27. To be sure, there are doubters. Hans-Werner Sinn worries that intra-EU debt in the TARGET2 system won’t be repaid, which would follow on German foreign losses in the “dot com” and subprime crashes. H. Sinn “Es ist ungesund,” *Die Zeit*, November 14, 2013, <http://www.zeit.de/2013/47/hans-werner-sinn-export-euro-rettung>; see also G. Schnabl, “Why Trump is Right,”*Handelsblatt Global*, March 10, 2017, <https://global.handelsblatt.com/our-magazine/why-trump-is-right-722479>. [↑](#endnote-ref-27)
28. Bundesbank, *Monthly Report*, July 2017, p 85. [↑](#endnote-ref-28)
29. M. Matthijs and K. McNamara, “The Euro Crisis’ Theory Effect: Northern Saints, Southern Sinners, and the Demise of the Eurobond,” *Journal of European Integration* no. 2 (2015): 229-246, <http://www.tandfonline.com/doi/abs/10.1080/07036337.2014.990137?journalCode=geui20>. [↑](#endnote-ref-29)
30. For a good introduction to the relevant debates, see the views in M. Dooley, D. Folkerts-Landau and P. Garber. “The Revived Bretton Woods System,” *International Journal of Finance and Economics* 9(4): 307-313, October 2004 and B. Eichengreen, “Global Imbalances and the Lessons of Bretton Woods,” NBER Working Paper 10497, available at <https://www.nber.org/papers/w10497>, May 2004. [↑](#endnote-ref-30)
31. U.S. Department of the Treasury Office of International Affairs, “Report to Congress: Macroeconomic and Foreign Exchange Policies of Major Trading Partners of the United States,” October 2018 <https://home.treasury.gov/system/files/206/2018-10-17-%28Fall-2018-FX%20Report%29.pdf>, p. 2. [↑](#endnote-ref-31)
32. During the Obama Administration reports, Taiwan was listed, while India was not. [↑](#endnote-ref-32)
33. Treasury, “Report to Congress,” p. 7. [↑](#endnote-ref-33)
34. Treasury, “Report to Congress,” October 14, 2016, p. 37. [↑](#endnote-ref-34)
35. M. Blyth, *Austerity:* *The History of a Dangerous Idea,* (Oxford: Oxford University Press, 2013); R. Baldwin et. al., “Rebooting the Eurozone: Step 1 – Agreeing a Crisis narrative,” VoxEU, November 20, 2015, <http://voxeu.org/article/ez-crisis-consensus-narrative>. [↑](#endnote-ref-35)
36. See H. Flassbeck and C. Lapvitsas, “Wage moderation and productivity in Europe,” Institute for New Economic Thinking, January 28, 2016, <https://www.ineteconomics.org/perspectives/blog/wage-moderation-and-productivity-in-europe>. [↑](#endnote-ref-36)
37. C. Jones, “Bundesbank president attacks Angela Merkel’s policies,” *Financial Times*, March 13, 2014, <https://www.ft.com/content/72fa600e-aa9e-11e3-9fd6-00144feab7de>. [↑](#endnote-ref-37)
38. Deutsche Bundesbank, “German balance of payments in 2015: Monthly Report,” March 2016, <https://www.bundesbank.de/Redaktion/EN/Downloads/Publications/Monthly_Report_Articles/2016/2016_03_balance.pdf?__blob=publicationFile>, pp. 37-56. [↑](#endnote-ref-38)
39. Pettis, *The Great Rebalancing*; K. Austin, “Secular Stagnation and Two Articles of Faith of the Conventional Wisdom,” *World Economics*, 17(3), 2016, <http://www.world-economics-journal.com/Secular%20Stagnation%20and%20Two%20Articles%20of%20Faith%20of%20the%20Conventional%20Wisdom%20.details?AID=648>, pp. 55-90; P. Temin and D. Vines, *The Leaderless Economy: Why the World Economic System Fell Apart and How to Fix It*, (Princeton, New Jersey: Princeton University Press, 2013); Baldwin et. al., “Rebooting the Eurozone: Step 1 – Agreeing a Crisis narrative;” E. Jones, “Shifting the Focus.” A more technical version focused on gross capital flows rather than net flows in the current and capital accounts has been pioneered by H.S. Shin, “Global Savings Glut or Global Banking Glut?” Vox (EU), December 20, 2011, <http://voxeu.org/article/global-savings-glut-or-global-banking-glut>. [↑](#endnote-ref-39)
40. Pettis, *The Great Rebalancing*, pp. 29-32, 50-52; Austin, “Secular Stagnation.” [↑](#endnote-ref-40)
41. Technically, central bank reserves play a part in this balance, along with “errors and omissions.” [↑](#endnote-ref-41)
42. Pettis, *The Great Rebalancing*, pp. 128-135, 142-149. [↑](#endnote-ref-42)
43. That said, meta-analysis finds no evidence that transnational capital flows have enhanced growth. H. Ray, “Capital Account Management” in G. Akerlof, O. Blanchard, D. Romer and J. E. Stiglitz, (ed), *What Have We Learned?* *Macroeconomic Policy after the Crisis* (Cambridge, MA: MIT Press, 2014) pp. 307-13. [↑](#endnote-ref-43)
44. D. Rodrik, “Populism and the Economics of Globalization,” NBER Working paper 23559, pp. 16-20. [↑](#endnote-ref-44)
45. For details on how unwanted capital inflows cause unemployment, see Pettis, *The Great Rebalancing*, pp. 104-106, 110-116; also M. Pettis, “Syriza and the French Indemnity of 1871-73,” Carnegie Endowment for International Peace, February 4, 2015, <http://carnegieendowment.org/chinafinancialmarkets/58983>. [↑](#endnote-ref-45)
46. Rare exceptions include O. Landmann, “What’s Wrong With EZ? Conflicting Narratives’ in T. Beck and H. Kotz (eds), *Ordoliberalism: A German Oddity?* E-book. CEPR, 2017. See also his “Eine falsche Vorstellung,” *Der Sonntag*, July 23, 2017; other voices attempting to make this point in Germany include H. Dieter, “Deutschlands zweischneidige Außenwirtschaftspolitik, “SWP-Studie 13, July 2018; C. von Weizsäcker, “Europas Mitte. Mit einer Leistungsbilanzbremse könnte Deutschland für neuen Zusammenhalt unter den Partnern sorgen,” *Perspektiven der Weltwirtschaft* 17(4), 2016, p. 383-392. L. Funk, “Germany: Economy,” in Europa Publications (ed.), *Western Europe 2017*, London: Routledge 2016, pp. 302-317.

    See also Bertelsmann Stiftung *Deutschlands Exportüberschuss: Fluch oder Segen?* October 2015, <https://www.bertelsmann-stiftung.de/fileadmin/files/BSt/Publikationen/GrauePublikationen/NW_D_Exportueberschuss_2015.pdf>. The report notes that Germany “exports its unemployment” (p. 3) but then laments that the debt-brakes and demographic developments legitimately limit the state response, pp. 4-6, 11-13. This is characteristic of the “apologist” line of reasoning described above. [↑](#endnote-ref-46)
47. Pettis, “Syriza and the French Indemnity”; Johnston, Hancké, and Pant, “Comparative Institutional Advantage.” [↑](#endnote-ref-47)
48. A. Hassel, “No Way to Escape Imbalances in the Eurozone? Three Sources for Germany’s Export Dependency,” *German Politics*, 26(3), 2017, pp. 360-379. [↑](#endnote-ref-48)
49. Dieter, “Deutschlands zweischneidege Außenwirtschaftspolitik,” p. 28. [↑](#endnote-ref-49)
50. German household savings rates have remained unchanged, though they are the highest in the OECD outside Switzerland and 6 percent above the EU average. See Dieter, “Deutschlands zweischneidege Außenwirtschaftspolitik,” p. 27. [↑](#endnote-ref-50)
51. O. Nachtwey, *Germany’s Hidden Crisis,* (London, Verso, 2018); M. Fratzscher, *Die Deutschland-Illusion: Warum wir unsere Wirtschaft überschätzen und Europa brauchen* (Munich: Carl Hanser Verlag, 2014). A. Roth and G. Wolff, “Understanding the (Lack of) German Public Investment,“ Bruegel, June 19, 20-18 http://bruegel.org/2018/06/understanding-the-lack-of-german-public-investment/. [↑](#endnote-ref-51)
52. C. Borio, H. James, and H.S. Shin, “The International Monetary and Financial System: A Capital Account Historical Perspective,” Bank for International Settlements: BIS Working Papers, August 2014, <http://www.bis.org/publ/work457.pdf>. [↑](#endnote-ref-52)
53. Baldwin et. al., “Rebooting the Eurozone: Step 1 – Agreeing a Crisis narrative”; E. Jones, “Financial Markets Matter More.” [↑](#endnote-ref-53)
54. Others went outside the eurozone to Central and Eastern Europe. W. Jacoby, “The EU Factor in Fat Times and Lean: Did the EU Amplify the Boom and Soften the Bust?” *Journal of Common Market Studies*, 52 (January 2014), 52–70, <http://onlinelibrary.wiley.com/doi/10.1111/jcms.12076/abstract>. [↑](#endnote-ref-54)
55. E. Jones, “Competitiveness.” [↑](#endnote-ref-55)
56. M. Pettis, “Economic Consequences of Income Inequality,” Carnegie Endowment for International Peace, March 23, 2014 <http://carnegieendowment.org/chinafinancialmarkets/55084>. [↑](#endnote-ref-56)
57. Bundesbank *Monthly Report*. July 2017, p. 84. [↑](#endnote-ref-57)
58. As noted, a partial exception is A. Kluth, “Let’s Not Infantilize Germany’s Trade Surplus,” *Handelsblatt Today*, July 14, 2017. More usually, however, the concern expressed about capital flows is that Germany is getting IOUs for good German products. See e.g., K. Rudzio, “Angriff auf Berlin,” *Die Zeit*, February 18, 2017, <http://www.zeit.de/2017/07/exportueberschuss-waehrungsmanipulation-weltwirtschaft-usa/komplettansicht>; Schnabl, “Why Trump is Right.” [↑](#endnote-ref-58)
59. All data in this paragraph are taken from Haver Analytics. [↑](#endnote-ref-59)
60. Roth and Wolff, “Understanding the (Lack of) German Public Investment. [↑](#endnote-ref-60)
61. Profits not distributed to shareholders are a form of savings. [↑](#endnote-ref-61)
62. Dieter, “Deutschlands zweischneidege Außenwirtschaftspolitik,” p. 28. [↑](#endnote-ref-62)
63. With markedly different conclusions, capital account issues arise in Bofinger (2015), Dieter (2018), Bertelsmann (2015), Sinn (2013) and Schnabl (2017), all cited above. See also M. Hellwig, “Bitte nicht großdeutsch,” *Frankfurter Allgemeine Zeitung*, May 20, 2017, http://www.faz.net/aktuell/ wirtschaft/wirtschaftspolitik/sorge-um-umwandlung-der-eurozone-15014236.html [↑](#endnote-ref-63)
64. J. Boysen-Hogrefe et al, “Wirtschafts-, Finanz- und Geldpolitik: Wirkungen auf die deutsche Leistungsbilanz,” Kiel: Institut für Weltwirtschaft, November 2017 (Kieler Beiträge zur Wirtschafts-politik, Nr. 11); G. Felbermayr, C. Fuest and T Wollmershäuser, *The German Current Account Surplus*. To be sure, Felbermayr et al have uncovered frustrating and intriguing inconsistencies between US and Eurostat data. However, we cannot explain nearly two decades of multilateral imbalance as the result of bilateral statistical noise. [↑](#endnote-ref-64)
65. Bundesbank, “German balance of payment in 2015.” [↑](#endnote-ref-65)
66. The same flaw is apparent in the joint 2017 report from the Ministry of Finance and Ministry of Economics, which also ignores the capital account: “Der deutsche Leistungsbilanzüberschuss im Lichte der deutsch-amerikanischen Handelsbeziehungen,” May 5, 2017. http://www.bundesfinanzministerium.de/ Content/DE/Standardartikel/Themen/Internationales\_Finanzmarkt/2017-05-04-deutscher-leistungsbilanzueberschuss. html [↑](#endnote-ref-66)
67. M. Blyth, “Policies to Overcome Stagnation: The Crisis, and the Possible Futures, of all Things Euro,” *European Journal of Economics and Economic Policies,* 13(2), 2016, <https://www.elgaronline.com/view/journals/ejeep/13-2/ejeep.2016.02.06.xml>, pp. 215-228. [↑](#endnote-ref-67)
68. This paragraph uses Eurostat data for 2007 (“eve of the crisis”) and 2017 (the latest available from Eurostat). https://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=tipsbp20&plugin=1. [↑](#endnote-ref-68)
69. EU Commission data at <https://ec.europa.eu/eurostat/documents/2995521/9282509/2-03102018-BP-EN.pdf/8d00dcb7-b5bc-477e-8c99-a2157c465321>; [↑](#endnote-ref-69)
70. August 2016 piece [↑](#endnote-ref-70)
71. July 2017 report, pp. 83-87. Indeed, the Bundesbank authors claim that even if all the countries with which the US has strong bilateral trade deficits would boost domestic consumption by a full percentage point, the aggregate effect on the US would be small. [↑](#endnote-ref-71)
72. They are also out of step with prior Bundesbank reports, which, while not emphasizing the role of lagging German domestic demand, clearly show that it plays a large role in increasing the current account surplus. See e.g., January 2015 *Monthly Report*, p. 31. The Bundesbank is, however, more consistent on the causes of the current account surplus, stating that, “the dynamics and level of current account balances are essentially determined by international flow of goods.” Ibid, p. 32. Similarly, the report links the marked shift in Southern European states’ current accounts (from large deficits to level or surplus) not to the sharp cessation of Northern European capital inflows after 2008 but to “improvements in price and non-price competitiveness.” p. 32. [↑](#endnote-ref-72)
73. Neither do Bundesbank economists see capital outflows as a factor in soaring Chinese current account surpluses—a factor Chinese leadership *does* acknowledge. See January 2015 *Monthly Report*, pp, 20-23. See also Gabrisch and Staehr, “The Euro Plus Pact.” [↑](#endnote-ref-73)
74. German officials often suggest the US benefits from German FDI. But such FDI helps if and only if the US lacks capital, technology, or management skills. Even aside from the Volkswagen scandal, such a scenario is implausible. A more plausible scenario is that once German capital exports to peripheral Europe slowed after 2009, new outlets were required in order to keep exports booming. [↑](#endnote-ref-74)
75. Hassel, “No Way to Escape Imbalances?” [↑](#endnote-ref-75)
76. Pettis, *The Great Rebalancing*, pp. 78-84. For the argument that East Asia borrowed key elements of its export model *from Germany*, see W. Streeck and K. Yamamura, *The Origins of Non-Liberal Capitalism* (Cambridge, UK: Cambridge University Press 2002). [↑](#endnote-ref-76)
77. For the way neo-liberal econometric models go beyond “comic book versions of laissez-faire economics,” and incorporate demand-side factors, see C. Ban, *Ruling Ideas: How Global Neoliberalism Goes Local* (Oxford University Press, 2016), pp. 2-4. [↑](#endnote-ref-77)
78. The IMF predicts that on its current trajectory, the German surplus will decline by only about 1 percent of GDP by 2022 (e.g., to about 7.3 percent). At that point, the surplus will be two decades old. See International Monetary Fund, “Germany: Staff concluding statement of the 2017 Article IV mission,” May 15, 2017, <http://www.imf.org/en/News/Articles/2017/05/15/mcs05152017-Germany-Staff-Concluding-Statement-of-the-2017-Article-IV-Mission>. [↑](#endnote-ref-78)
79. W. R. Mead, “Stubborn Germany Rejects Trade Criticism,” *The* *American Interest*, March 28, 2017, <https://www.the-american-interest.com/2017/03/28/stubborn-germany-rejects-trade-criticism/>; P. Hockenos, “Germany Has an Arrogance Problem,” *Foreign Policy*, April 27, 2017, <http://foreignpolicy.com/2017/04/27/germany-is-getting-too-arrogant-merkel/>; M. Matthijs (2016), “Powerful Rules Governing the Euro: The Perverse Logic of German Ideas.” *Journal of European Public Policy* 23(3): 375-91, <http://www.tandfonline.com/doi/abs/10.1080/13501763.2015.1115535?journalCode=rjpp20>. [↑](#endnote-ref-79)
80. Weidmann in C. Jones, “Bundesbank president attacks Angela Merkel’s policies.” [↑](#endnote-ref-80)
81. See, e.g., Schäuble, “International Monetary and Financial Committee Statement.” [↑](#endnote-ref-81)
82. As indeed they must if the receiving states are poorly-situated to invest productively or accommodate further debt. Rather then increasing other countries’ debt or consumption bubbles, more German capital should stay at home. [↑](#endnote-ref-82)
83. See International Monetary Fund, “Germany: Staff concluding statement of the 2017 Article IV mission,” for one comprehensive list. [↑](#endnote-ref-83)
84. H. Bardt et. al, “Die Infrastruktur in Deutschland: Zwischen Standortvorteil und Innovationsbedarf,” Cologne: Institut der deutschen Wirtshaft, 2014 <https://www.iwkoeln.de/fileadmin/user_upload/Studien/IW-Analysen/PDF/Bd._95_Infrastruktur.pdf>, p. 18. [↑](#endnote-ref-84)
85. Fratzscher, *Verteilungskampf*. [↑](#endnote-ref-85)
86. A good summary is H. James, “Can Germany Make Globalization Work?” Transatlantic Academy, March 2017, <http://brussels.gmfus.org/publications/can-germany-make-globalization-work>. [↑](#endnote-ref-86)
87. For the argument that the United States could and should restrict capital inflows, see Austin, “Secular Stagnation,” pp. 75-8; for the causal mechanisms on unemployment, see Pettis, *The Great Rebalancing*, pp. 104-106, 110-116. [↑](#endnote-ref-87)