



Faultlines on the Rhine: Germany and the Euro crisis 2010-2011

Adam Tooze

Yale University

February 2011



Partners in Europe's Economic Government:
Merkel and Sarkozy at the Euro Summit 4
February 2001

The Rebound in the US and Germany

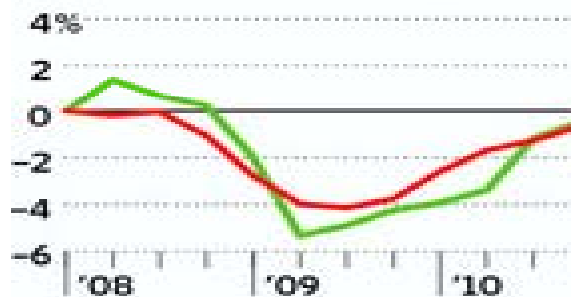
Tracking the Recovery

Charts show the change in each indicator since the start of the recession.

— U.S. — Germany

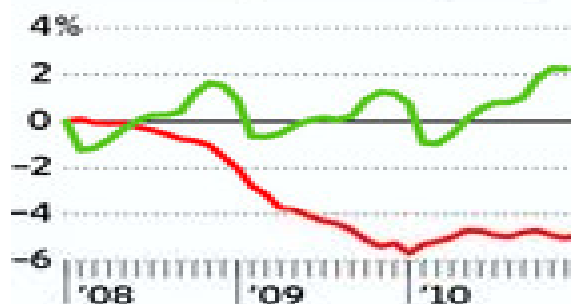
GDP

Germany's economy has passed the U.S. in its rebound toward pre-recession GDP.



Employment

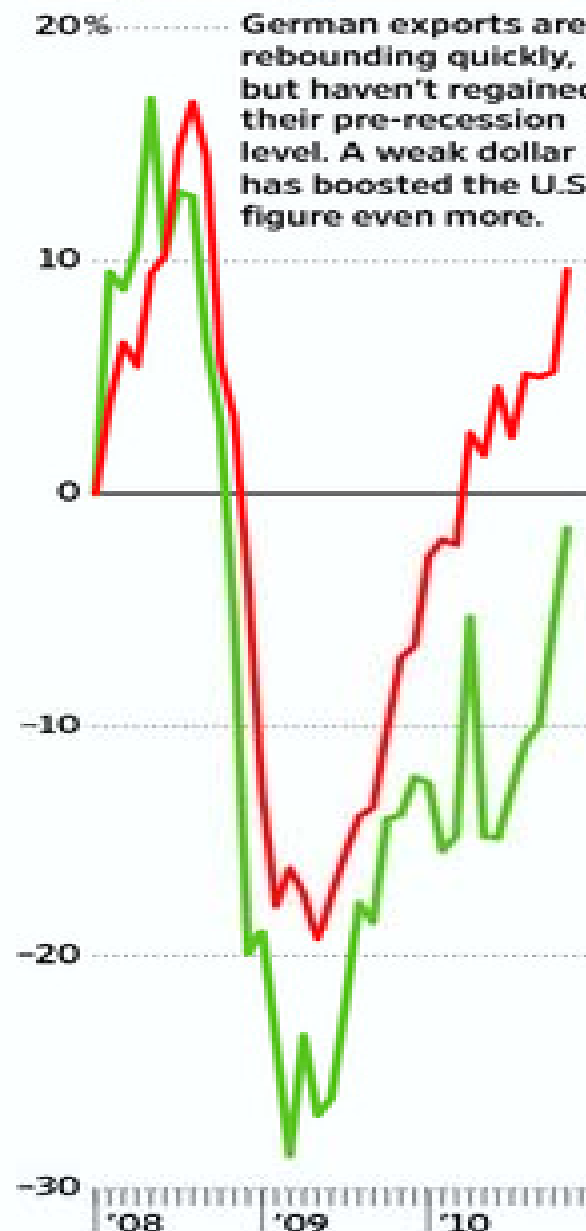
Germany avoided the huge jobs losses of the U.S. and has added back jobs more quickly.



Sources: Organization for Economic Cooperation and Development (GDP, trade); Germany's Federal Statistics Office via CEIC Data and U.S. Labor Department (employment)

Exports of goods

German exports are rebounding quickly, but haven't regained their pre-recession level. A weak dollar has boosted the U.S. figure even more.



1. Appropriateness of macroeconomic stance:

Current account balance

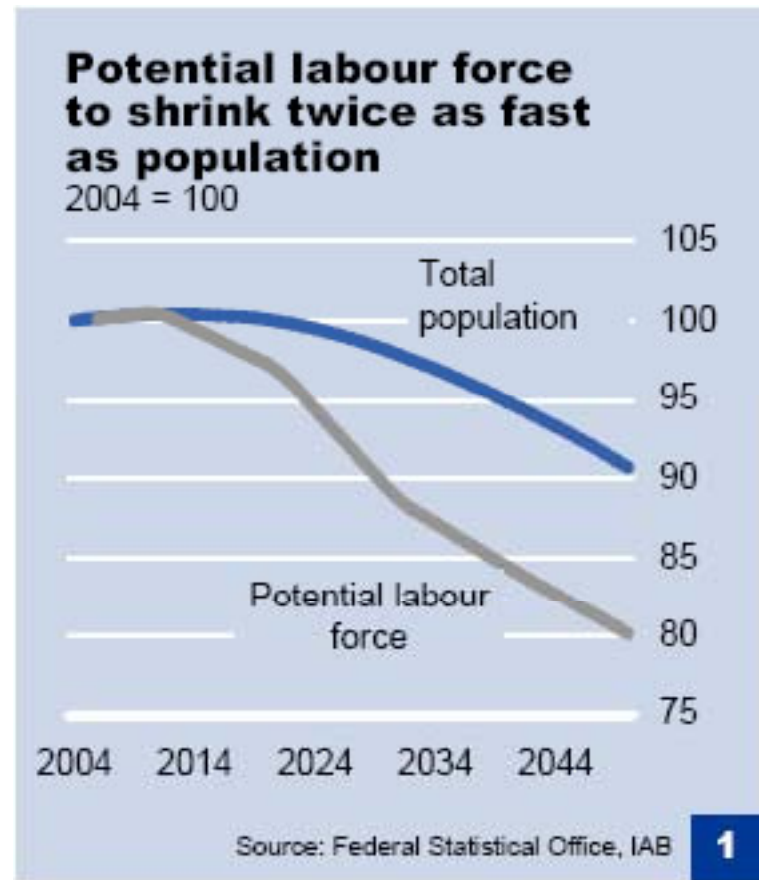
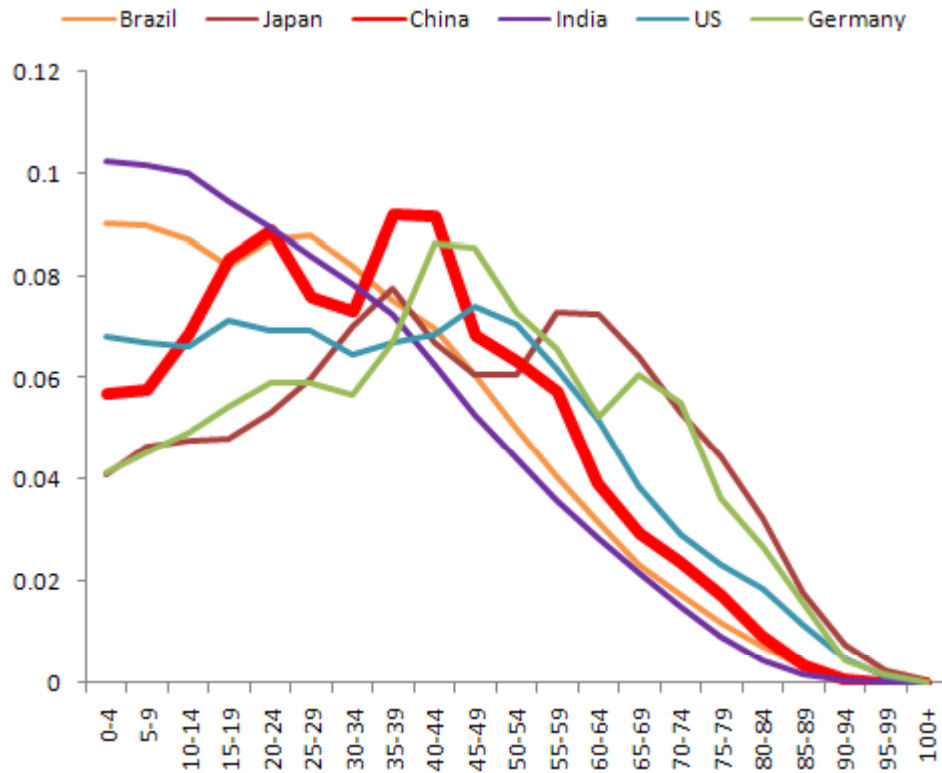
Public budget

2. Compatibility with international balance

3. Distributional implications

4. Who decides?

1. Appropriateness of macroeconomic stance:
 Current account balance
 Public budget



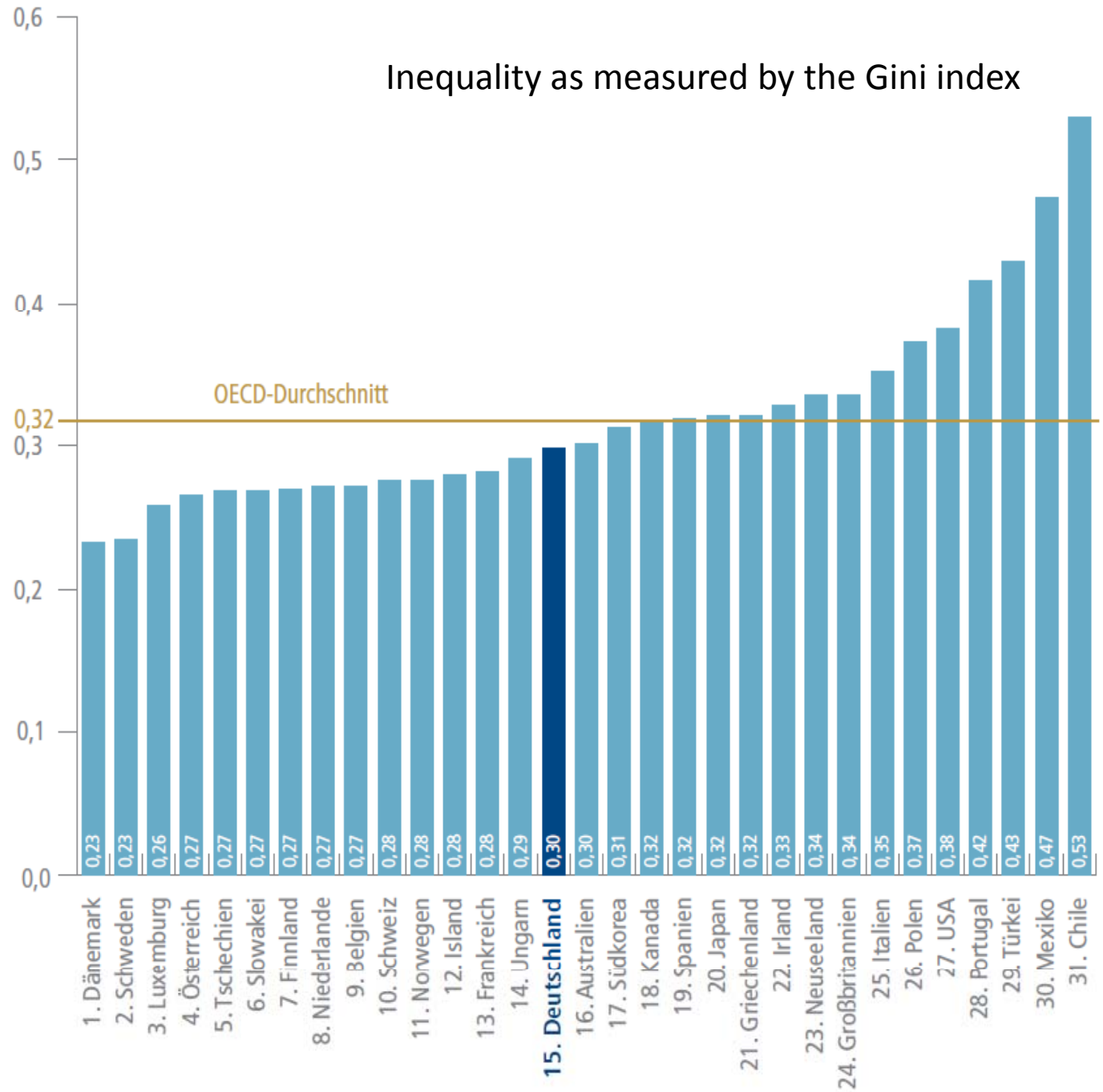
2. Compatibility with international balance

German trade with Greece

In billions of U.S. dollars



3. Distribution



4. Who decides?



1. Appropriateness of macroeconomic stance:

Current account balance

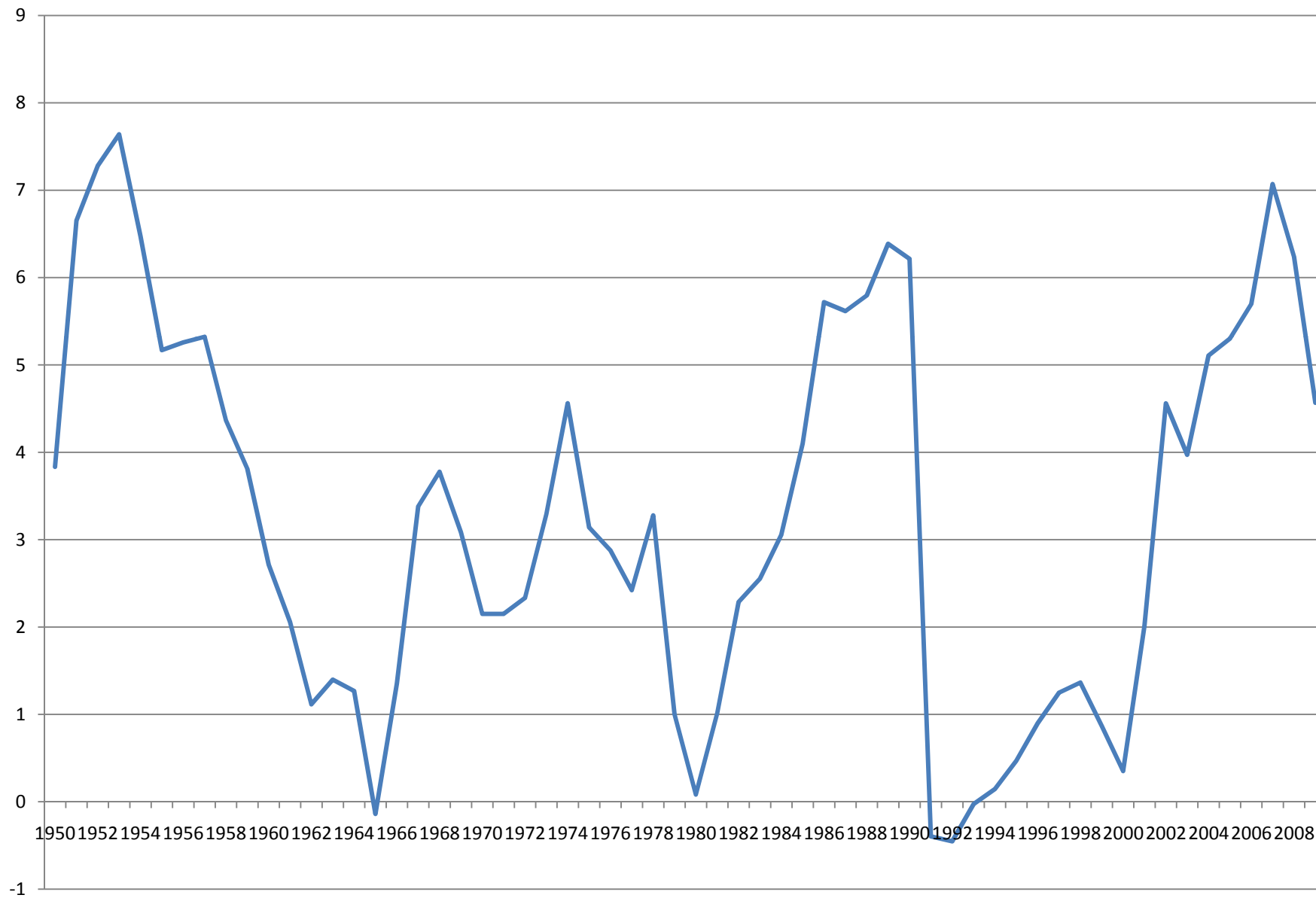
Public budget

2. Compatibility with international balance

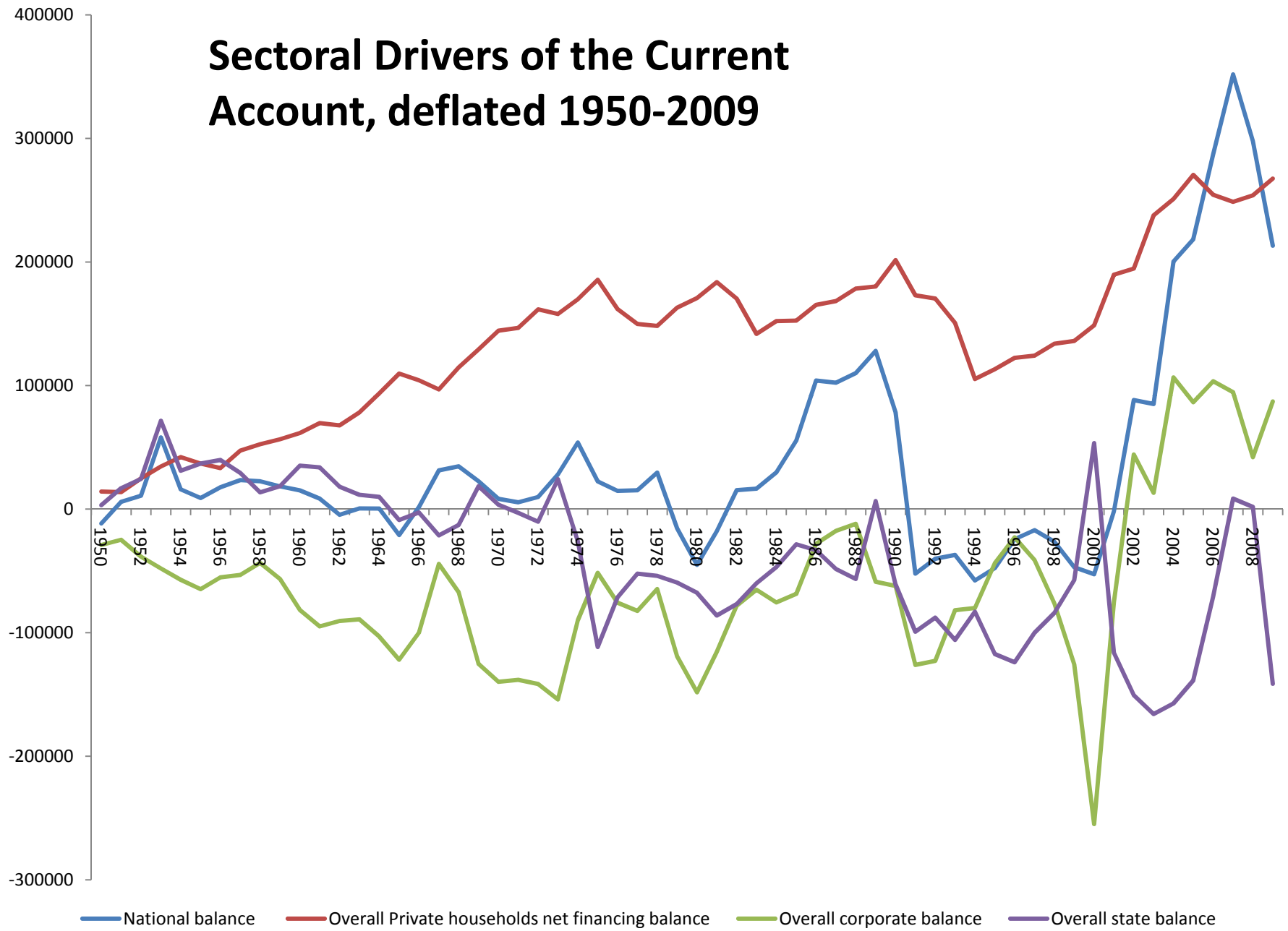
3. Distributional implications

4. Who decides?

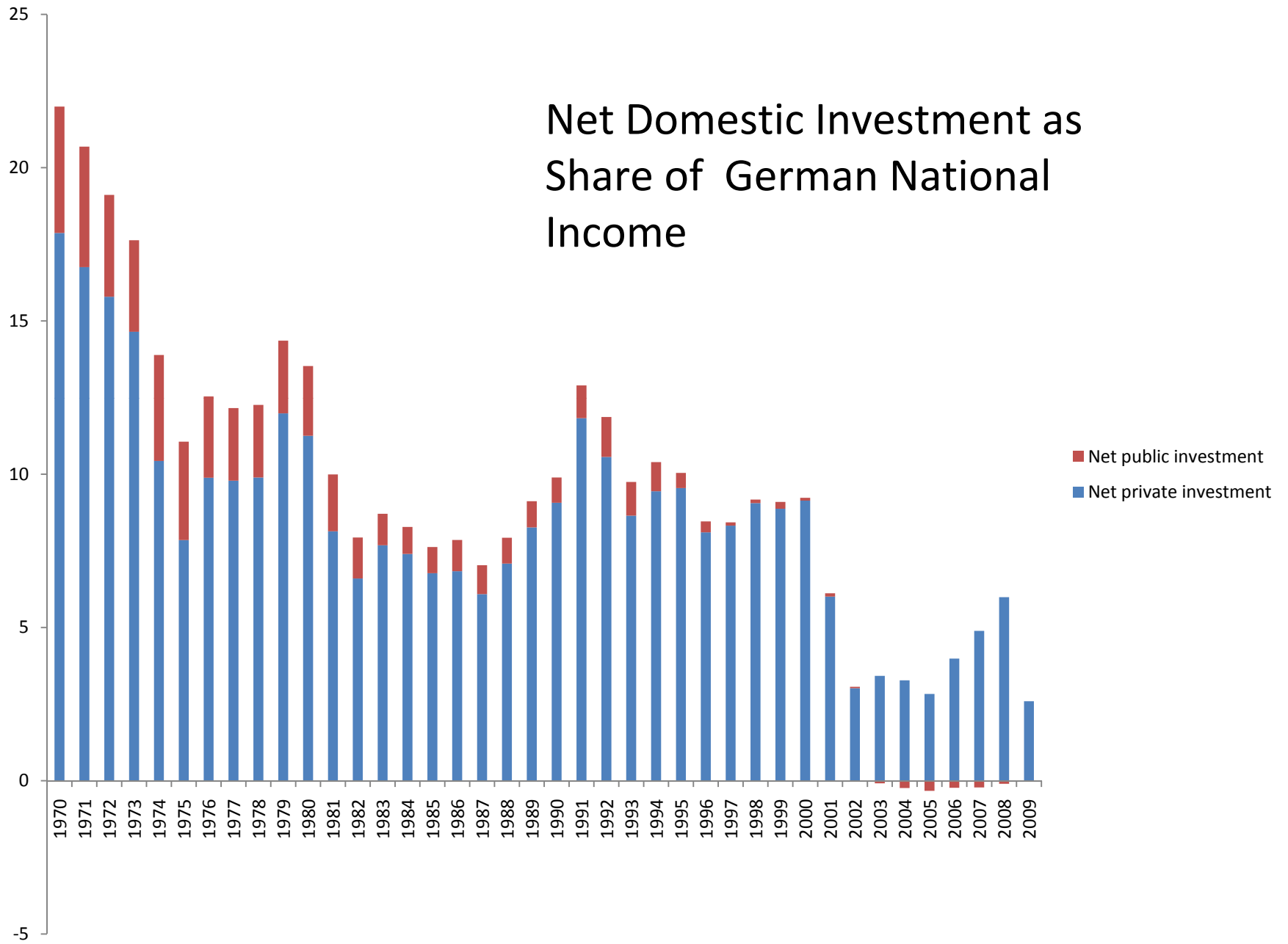
Current Account as Percentage of GDP (%)



Sectoral Drivers of the Current Account, deflated 1950-2009

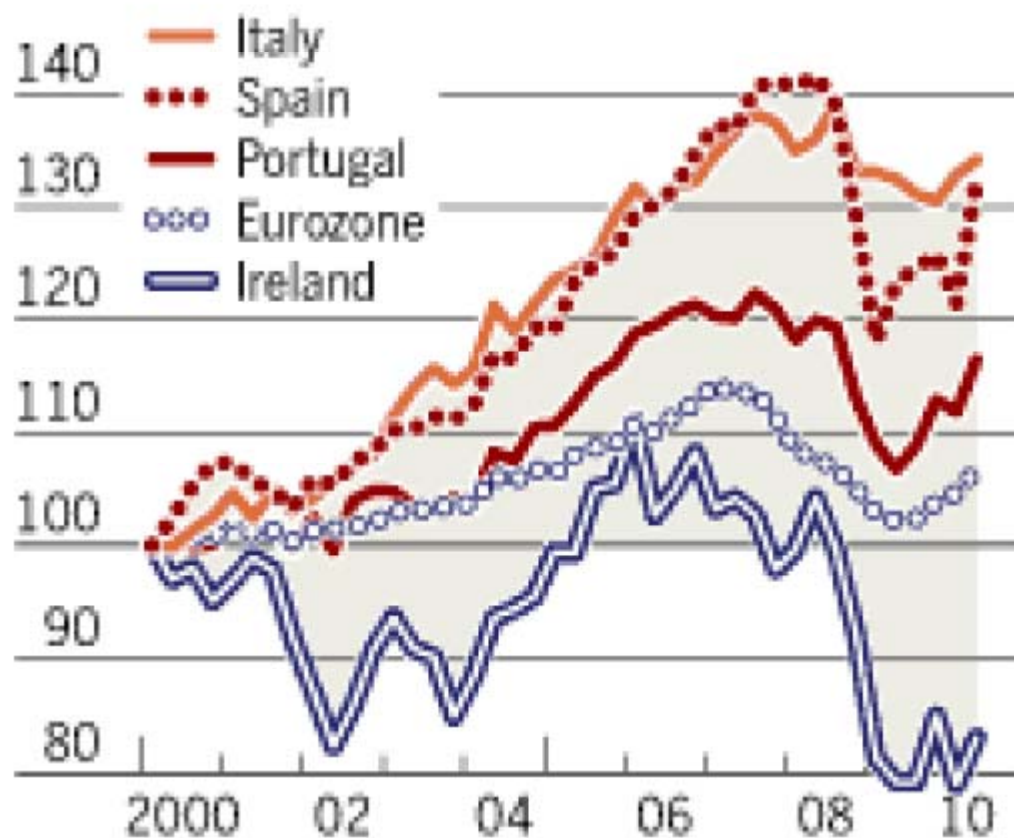


Net Domestic Investment as Share of German National Income



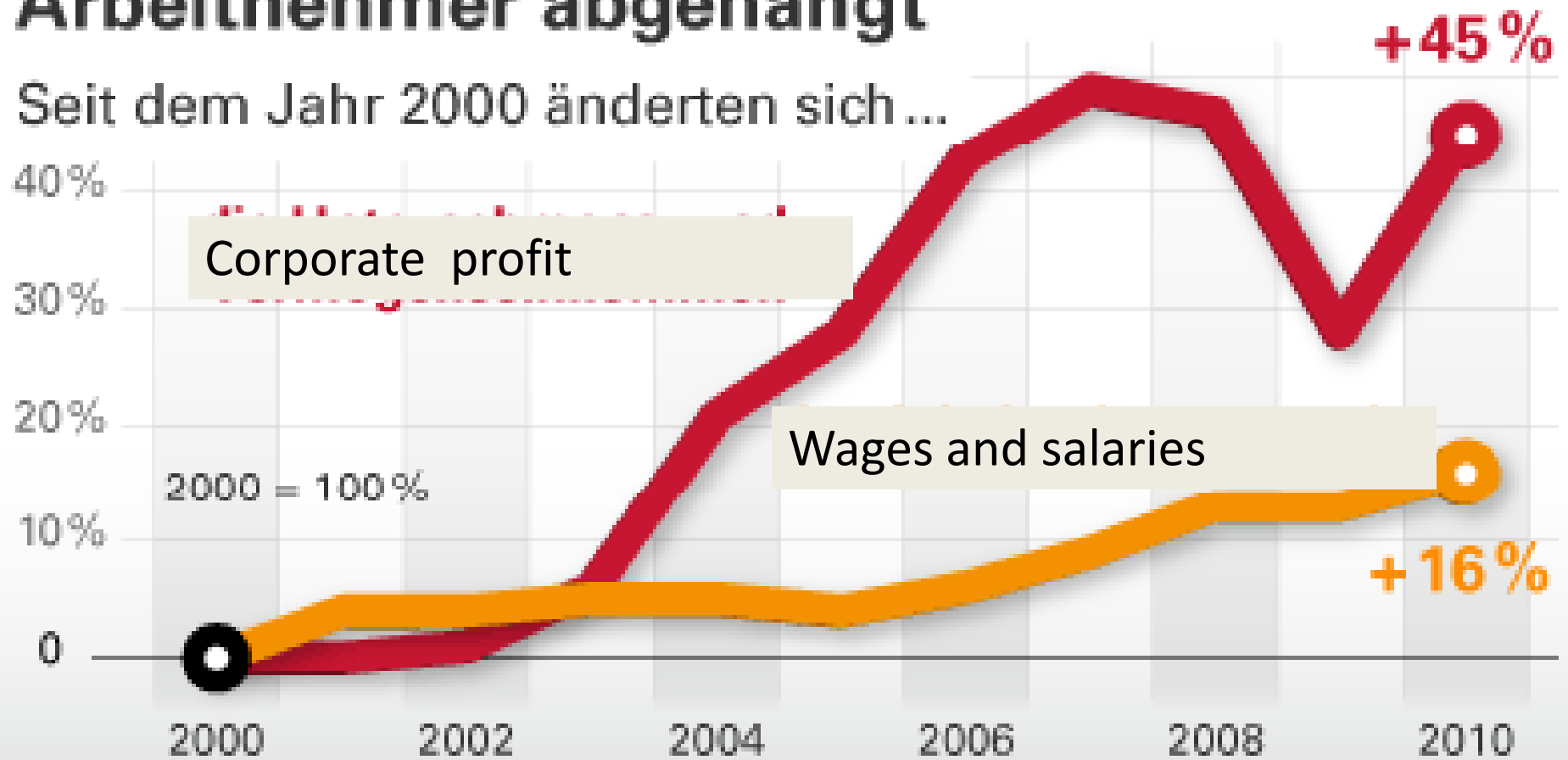
Unit labour costs in manufacturing

Relative to Germany (rebased, 2000 = 100)



Arbeitnehmer abgehängt

Seit dem Jahr 2000 änderten sich ...

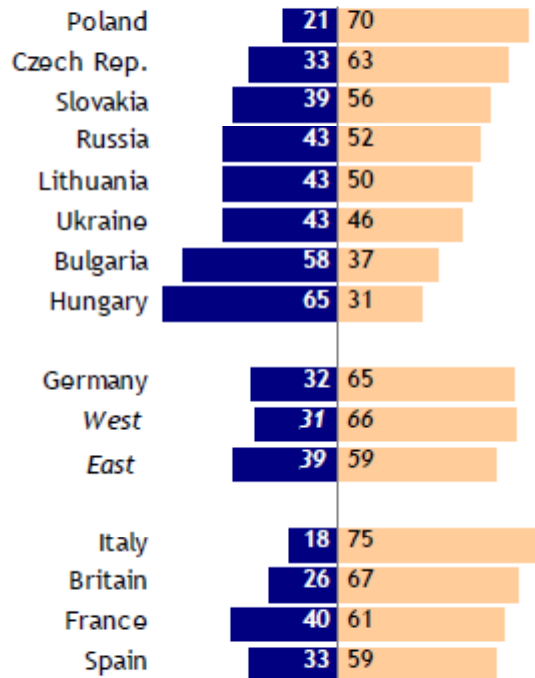


Changes in Gini coefficient in OECD, Mid 1980s to Mid 2000s

		Mid-1980s to Mid-1990s	Mid-1990s to Mid-2000s	Cumulative change Mid-1980s to Mid- 2000s
Austria	AUT	0.002	0.014	0.016
Belgium	BEL	0.013	0.003	0.016
Canada	CAN	-0.004	0.034	0.030
Czech Republic	CZE	0.026	0.002	0.028
Denmark	DNK	-0.006	0.018	0.012
Finland	FIN	0.021	0.041	0.062
France	FRA	-0.030	0.000	-0.030
Germany	DEU	0.015	0.026	0.041
Greece	GRC	0.000	-0.015	-0.015
Hungary	HUN	0.021	-0.003	0.018
Ireland	IRL	-0.006	-0.021	-0.027
Italy	ITA	0.036	0.004	0.040
Japan	JPN	0.019	-0.003	0.016
Luxembourg	LUX	0.012	-0.001	0.011
Mexico	MEX	0.066	-0.045	0.021
Netherlands	NLD	0.024	-0.011	0.012
New Zealand	NZL	0.064	0.000	0.064
Norway	NOR	0.022	0.020	0.042
Portugal	PRT	0.030	0.025	0.056
Spain	ESP	-0.028	0.000	-0.028
Sweden	SWE	0.014	0.023	0.037
Turkey	TUR	0.056	-0.060	-0.004
United Kingdom	GBR	0.029	-0.019	0.010
United States	USA	0.024	0.020	0.044
OECD-24	OCDE-24	0.018	0.002	0.020
OECD-22	OCDE-22	0.014	0.007	0.021

People Are Better Off in Free Markets

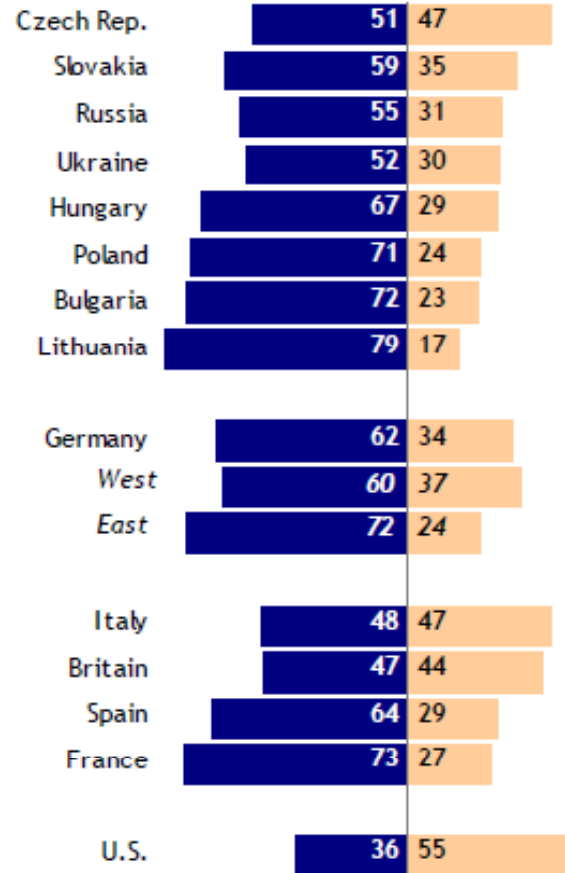
■ Disagree ■ Agree



"Please tell me whether you completely agree with it, mostly agree with it, mostly disagree with it or completely disagree with it: Most people are better off in a free market economy, even though some people are rich and some are poor." (Q40c)

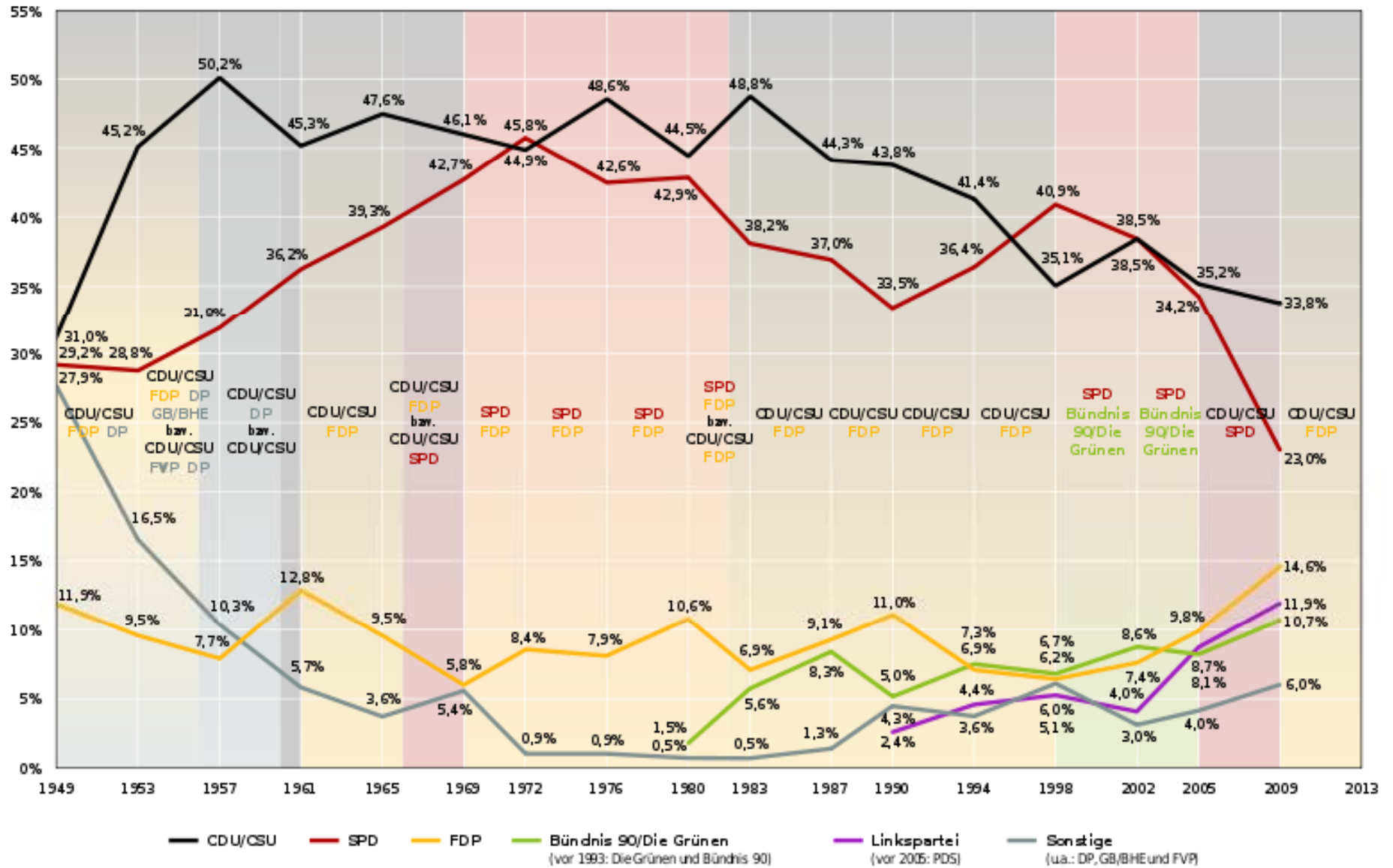
Which Is More Important...

■ Nobody in need
■ Freedom to pursue life's goals



Question 36.

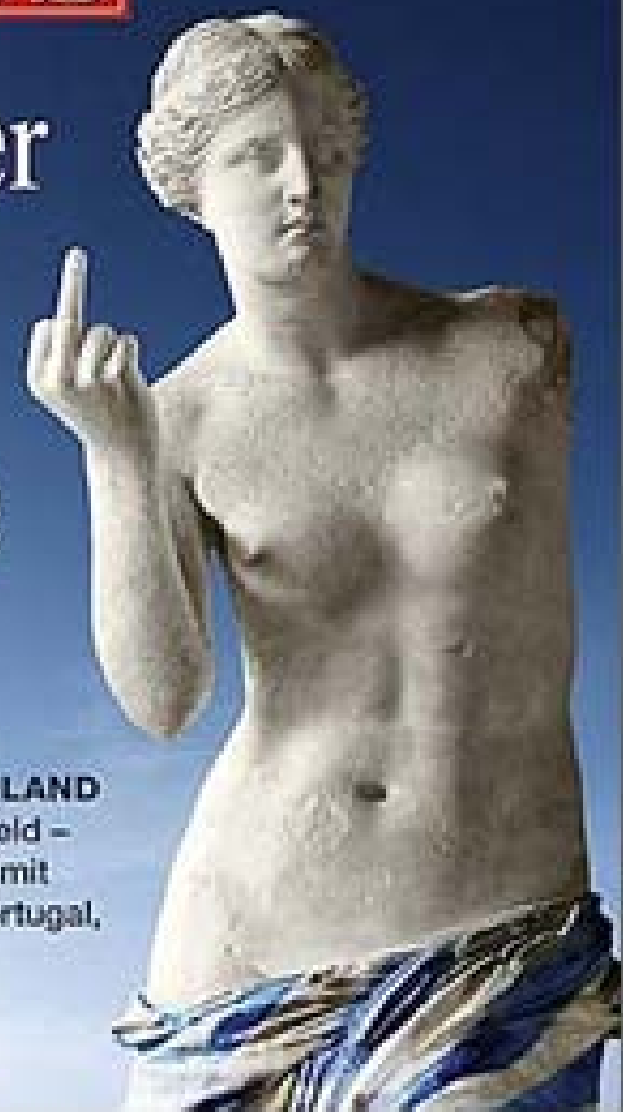
Bundestagswahleregebnisse und anschließend gebildete Regierungen





VORSICHT, FISCH!
Er soll doch so gesund sein
Stimmt aber leider nicht immer

Bringt uns
GRIECHENLAND
um unser Geld –
und was ist mit
Spanien, Portugal,
Italien?



Debt Politics in Germany

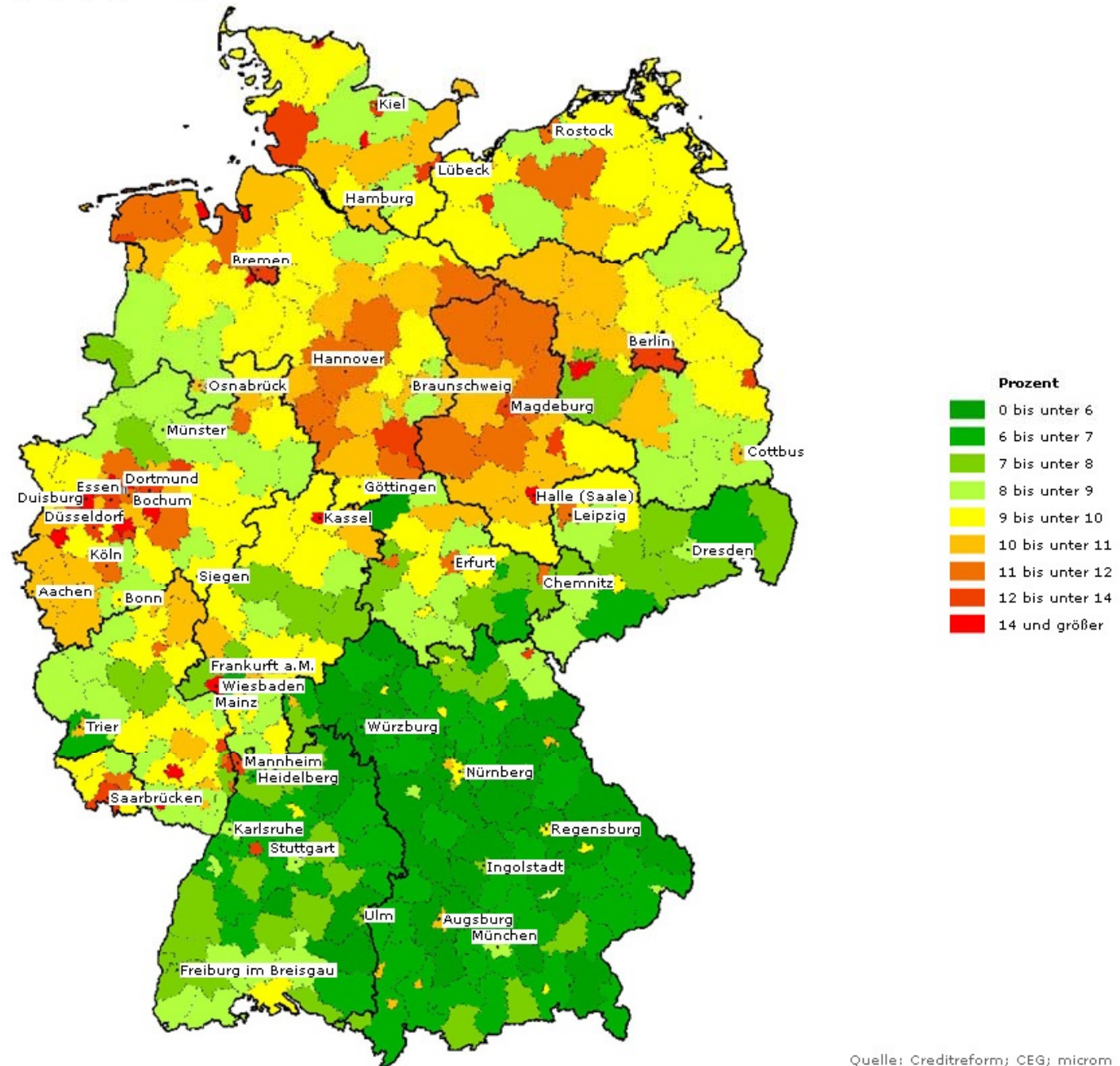


**Germany's
Problem of
Fiscal
Federalism as
projected by
the
Bertelsmann
Stiftung**

Land and Communes	Projected Debt as % of Regional GDP			
	2002**	2010	2020	2030
Baden-Württemberg	12,8	20,2	33,4	53,0
Bayern	8,8	16,9	30,2	49,7
Berlin	57,9	105,0	197,9	338,7
Brandenburg	36,8	64,8	150,9	290,6
Bremen	41,2	75,8	134,8	214,8
Hamburg	23,8	36,8	56,6	85,6
Hessen	17,0	27,1	43,5	67,7
Mecklenburg- Vorpommern	36,4	70,1	164,5	299,9
Niedersachsen	26,5	43,7	73,9	116,3
Nordrhein-Westfalen	24,3	35,4	55,1	83,9
Rheinland-Pfalz	27,6	44,7	76,8	123,9
Saarland	28,8	50,6	92,7	147,9
Sachsen	21,3	30,6	77,6	154,4
Sachsen-Anhalt	43,7	77,8	179,0	322,6
Schleswig-Holstein	29,7	43,1	64,5	98,0
Thüringen	36,8	60,9	135,7	246,8
Bund	34,1	41,0	45,9	55,6
Gesamtstaatlich***	56,0	76,8	108,9	159,4

Schuldneratlas 2010 nach Kreisen

Schuldneranteil in Prozent



Applying the debt brake, 2009

Neu im Grundgesetz verankerte Schuldenbegrenzung (Eckpunkte)

Transitional assistance for worst 6 Laender

Debt per inhabitant, Euro March 2009

800 Mio. Euro/Jahr, von 2011 bis 2019, insges. 7,2 Mrd. Euro



betroffen: Berlin, Bremen, Saarland, Sachsen-Anhalt, Schleswig-Holstein

Neuverschuldung

Bund: ab 2016 max. 0,35 % der Wirtschaftsleistung (BIP)

Länder: schrittweise Reduzierung auf 0 bis zum Jahr 2020

Ab 2020: absolutes Neuverschuldungsverbot

Ausnahmen: Not- und Katastrophenzeiten, Wirtschaftskrisen



Limits on new debt

Quelle: BMF

*einschließlich Kommunalschulden



A Program for Eurozone Growth?

MERKEL'S PROGRAM

HARMONIZE TAX RATES

Extremely low rates of corporate tax, such as those in Ireland, will no longer be allowed.

ADJUST RETIREMENT AGES

Retirement ages should be adjusted to reflect demographic trends.

IMPROVE JOB OPPORTUNITIES

Educational and professional qualifications should be mutually recognized.

CURTAIN DEBT

Introduction of a "debt brake" based on the German model that would stabilize public finances.