100 YEARS
UNDERSTANDING
AND SHAPING
THE GLOBAL ECONOMY

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On the ‘Problem’ of the Current Account Surplus in Germany

Klaus-Jürgen Gern and Stefan Kooths
Forecasting Center

Balance of payments

- Current Account ≡ Capital and Financial Account
  ≡ Capital Account
  + Non-offical Financial Account
  + Reserve Assets/Target2

- Identities say nothing …
  - … about causality
  - ... nor about interdependencies

⇨ **Economic, not accounting approach needed!**

Fundamental principle in indirect exchange economies

- All goods market transactions require purchasing power
  - Earned purchasing power (same period)
  - Borrowed purchasing power (inter-temporal shifts)
  - Created purchasing power (printing press)

- Financial transactions necessarily precede trade flows
  - Capital movements shape trade flows via price incentives ("competitiveness" as a result, not a driver of cross-border-flows)
  - Factor cost follow prices, not vice-versa (means are valued by their ends)
  - Multilateral, not bilateral patterns

⇨ "The financial balance commands, the trade balance follows, not the other way round." (Eugen v. Böhm-Bawerk, 1914)

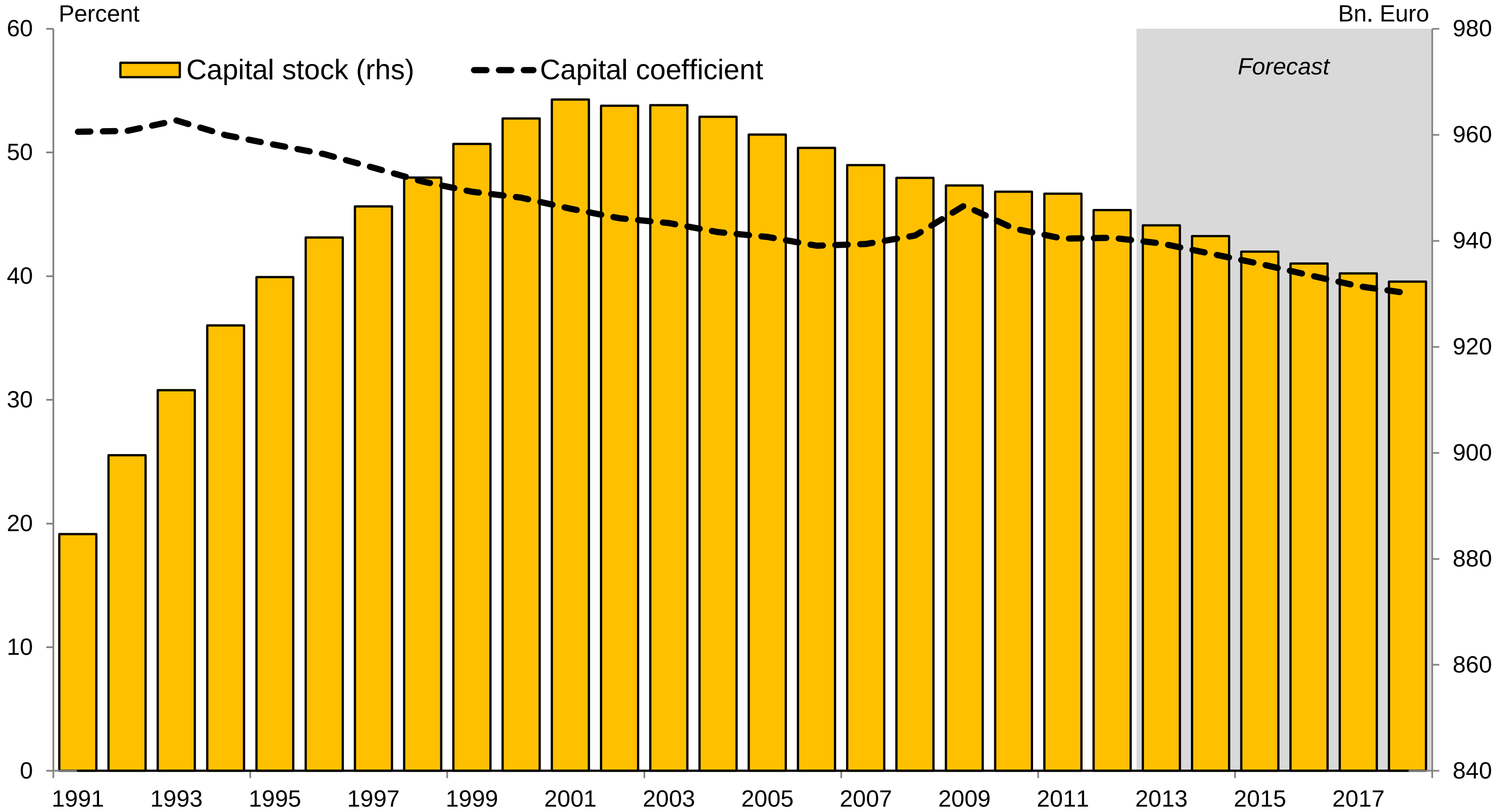
Intra-EMU trade and financial flows

- Barter vs. monetary economies: Money matters, yes!
- Regularly working monetary union does not alter dominance of capital movements
  - » Lasting trade balances only, if outflowing money from CA-deficit countries is pumped back via capital flows
  - » Otherwise money would concentrate in surplus countries and initiate price and wage adjustments (“competitiveness”)
  - ⇨ Excessive money creation in CA-deficit countries against the rules of the game (preventing price and wage adjustments)
- Questionable Keynesian view
  - » CA-surplus countries „steal“ effective demand from deficit countries
  - » Sudden-stops of capital flows as a blessing for former deficit countries?
  - ⇨ Flow-of-funds view completely neglects capital stock structures

Current account imbalance = disequilibrium?

- Inter-temporal approach
  - » Quest for „sustainable“ annual values is misleading (dynamics vs. evenly rotating economy)
  - » Consumption smoothing as overarching rationale
  - » Arbitrary focus on national borders due to statistical survey traditions only (current account balance of Île-de-France?)
- Return on capital
  - » Cross-border mobility of factor flows
  - » Global arbitrage benefits all participants
  - » Outflow of capital from highly capitalized countries not astonishing
  - » Revaluation losses indicate poor banking performance (independent from domestic or foreign investments)
  - » GNI- vs. GDP-view

Public capital stock in Germany: Erosion continues



Annual data.
Capital stock: Net stock of fixed assets, price-adjusted (chain linked, reference year 2005).
Capital coefficient: Net stock of fixed assets at current replacement prices in relation to GDP at current prices.

Germany‘s infrastructure: Calling for deficit spending?

- Social transfers squeezed public investment spending over the last 20 years
  ⇨ **Restructuring public budgets**

- Germany is on the brink of overheating
  ⇨ **Clearly not the time for fiscal stimulus**

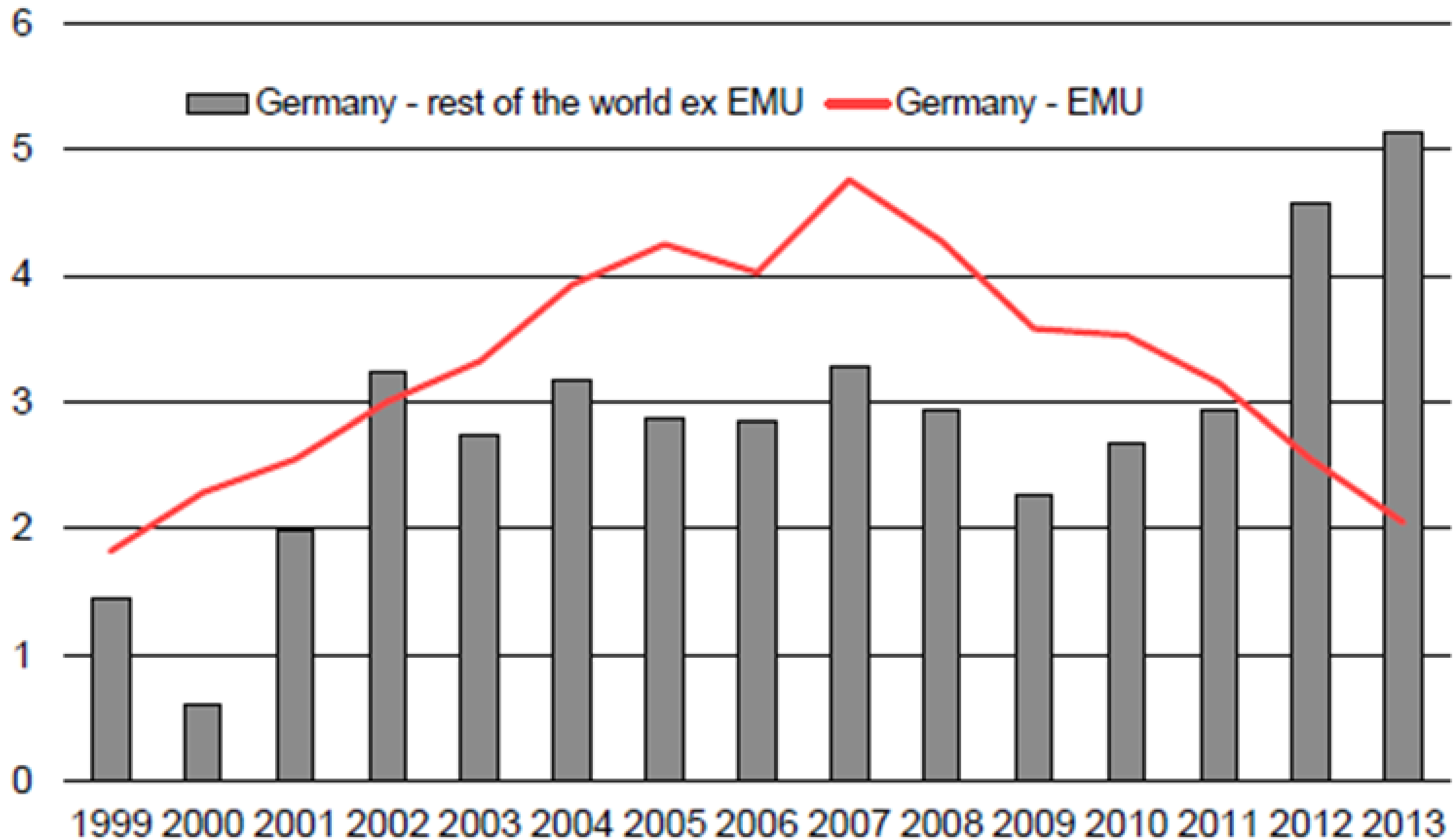
- Allocative efficiency and long-term perspective
  - Transition from a tax-financed to a user-financed infrastructure (most infrastructure systems are club goods, not public goods)
  - Politico-economic incentives systematically obstruct long-term decisions (long-term spending has not worked in the past, why should it work now?)

⇨**Depoliticizing infrastructure projects**

Low interest rates – a free lunch for Germany?

- Germany ≠ German government sector
  (savers are not benefiting from the crisis)
- Exceptionally low interest rates, but still exceptionally high debt stocks: When, if not now, is the time to consolidate?
- Low interest rates reflect taxpayers‘ ability to pay, not infrastructure users‘ willingness to pay
  - » Drastic distortion of true economic costs
  - » Increasing risk of malinvestments
- Government bonds undermine capitalistic mechanisms
  - » Risk free assets perpetuate wealth positions
  - » Bail-in of infrastructure investors

German trade balance
In percent of GDP

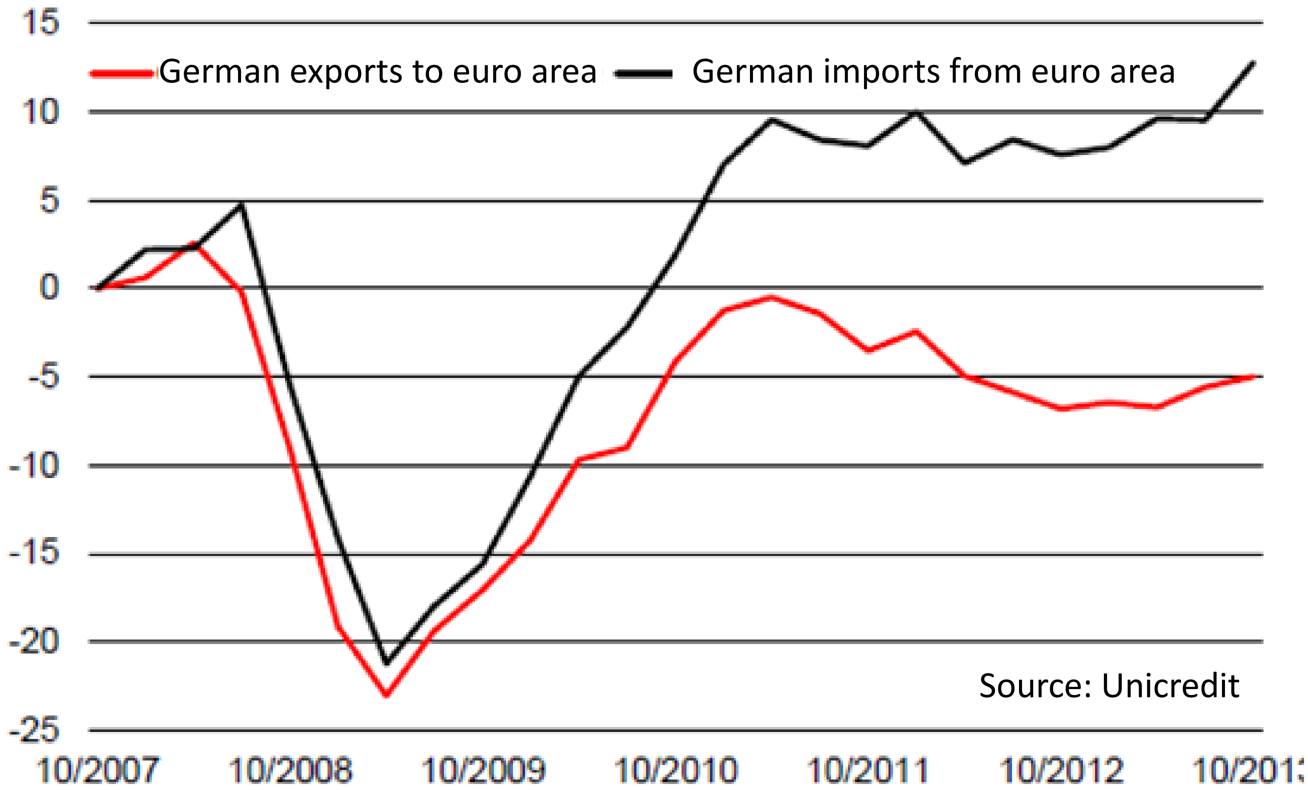


Source: Unicredit

- Rebalancing in the Euro Area is underway despite persistently high German current account surplus

German trade with euro area

Change to 2008-Q4 in percent (seasonally adjusted)



- Rebalancing within the euro area is not just the result of lower imports outside Germany, but also due to higher exports to Germany

German trade balance vis-à-vis euro area countries

Country	2007 (EUR bn)	2013 (EUR bn)	Δ exports 2013-07, %	Δ imports 2013-07, %
France	+28.8	+36.1	+9.5	+2.2
Italy	+19.8	+5.8	−17.4	+6.3
Spain	+26.9	+5.8	−34.2	+15.0
Portugal	+4.3	+1.2	−24.0	+26.1
Greece	+5.8	+3.0	−40.1	−14.6
Ireland	−11.2	−3.8	−14.1	−47.7
Netherlands	+1.0	−18.2	+12.9	+44.1
Belgium	+15.9	+5.9	−13.6	+6.3
Austria	+20.7	+19.3	+6.3	+14.8
Finland	+2.0	+2.0	−20.8	−25.9

- Picture differs across countries, with increases of German imports especially strong from Portugal and Spain, but also from the Netherlands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