

Press release

Germany rebalancing: Waiting for Godot?

by Simon Tilford

German rebalancing is something that is always about to happen but never does: the country's current account surplus hit a record 7.5 per cent of GDP in 2014. Neither Germany nor its trade partners benefit from this, argues Simon Tilford in a new CER policy brief, 'Germany rebalancing: Waiting for Godot?'

The current account balance is simply the difference between a country's income and what it spends. For the average German, the surplus therefore represents lower consumption than otherwise would have been the case and worse infrastructure and public services.

Since Germany saves so much, it invests huge sums of money abroad, with disastrous results. The country has lost almost a third of the savings (almost €600 billion) that it has invested in other countries since 1999; this money could have been invested more productively at home.

Moreover, Germany's surplus is a formidable obstacle to a eurozone recovery. Rebalancing would boost the eurozone economy by raising inflation and making it easier for other eurozone countries to service their debts, including those debts owed to Germany.

To a large extent, Germany's surplus reflects political choices: the government's drive to balance the budget; reforms that hit labour's bargaining power; a highly unequal distribution of wealth; too much taxation of consumption and too little of corporate profits, wealth and property.

The result has been anaemic domestic demand. A combination of real wages being barely above their levels of 15 years ago and high household savings has depressed private consumption as a share of GDP. Weak consumption has meant weak business investment.

The current pick up in domestic demand is nowhere near strong enough to rebalance Germany's economy. For this to happen, the country needs:

- ★ a big public investment programme and higher public sector wages to soak up some of the surplus savings;
- ★ lower consumption taxes and higher ones on corporate income, wealth and property;
- ★ steps to encourage greater home ownership, and hence a more equal distribution of wealth and lower household savings;
- ★ and unequivocal support of the ECB's attempts to ward off eurozone deflation, which could boost inflation expectations in Germany and hence demand.

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Notes for editors:

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