

Is Germanys model of export-led growth sustainable?

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The nature of the problem

Aspects and questions

- ▶ Dimensions of sustainability
- ▶ Export-led growth in history
- ▶ Germany's affinity to tighten the belt: the role of competitiveness and „beggar-thy-neighbour“
- ▶ Key currencies, mature currencies, growing currencies,...
- ▶ Germany in the currency union: the role of EMU governance
- ▶ Is globalization fostering imbalances?

Dimensions of sustainability

Aspects:

1. Ecological
2. Economic
3. Social
4. (Political)

Sustainable development:

1. Satisfaction of basic needs
2. Active participation
3. Intergenerational and global justice

Not yet included:

1. Social risk management
2. Income and wealth distribution
3. Political instabilities

Export-led growth in history

- ▶ Traditional development ideas: import of capital goods under insufficient savings
- ▶ One, two, three, ..., several „bottlenecks“ in the development process
- ▶ Criticism: Import-based growth, „dirigism“, unsustainable borrowing (at least ex post), landlords instead of Schumpeterian entrepreneurs,...
- ▶ Washington Consensus: „getting the prices right“ (mainly allocational efficiency)
- ▶ „Good-bye financial repression, hello financial crash“ (Diaz-Alejandro, 1984)

Export-led growth in history

- ▶ Post-Washington consensus (Stiglitz): safeguarding the development process, promoting export-led growth strategies, very competitive (in fact undervalued) exchange rates, capital controls to avoid appreciation...
- ▶ In a nutshell: „beggar-thy-neighbor“ either driven by tariffs or by using an undervalued currencies as a driver of development process (excess demand drives /gives incentives for the capital accumulation process).
- ▶ Role examples: Germany since 1950s, Japan until 1980s, Taiwan, South Korea ...

Export-led growth in history

Aspects:

1. Macroeconomic: Undervalued currencies can be defended (sterilization) in contrast to overvalued currencies which are more crisis-prone!
2. Microeconomic: Allocational efficiency, dynamic efficiency
3. Social/ Political: Cohesion in a country/ region

Germany's affinity to tighten the belt



Germany's affinity to tighten the belt

Continuing and persistent unit labor cost differentials before the financial crisis ...

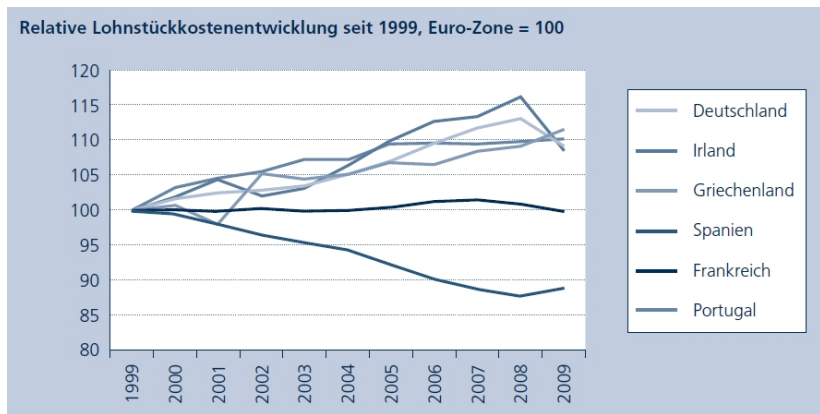


Abbildung: Source: AMECO, Dullien (2010)

Germany's affinity to tighten the belt

Current account imbalances widened...

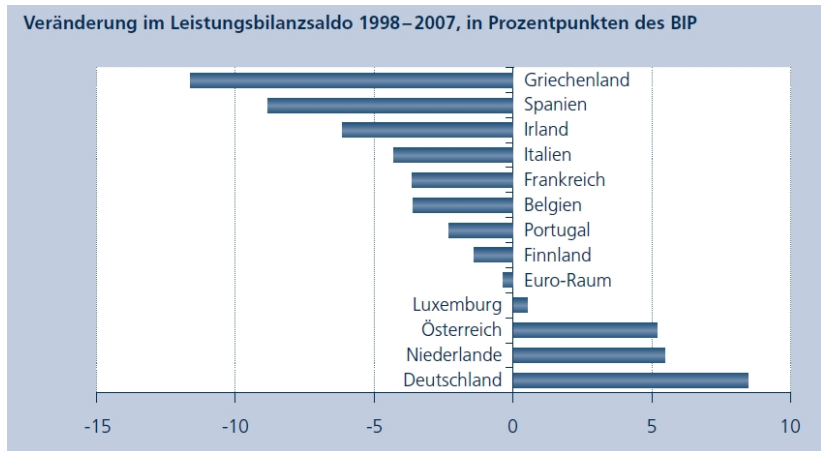


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Germany's affinity to tighten the belt

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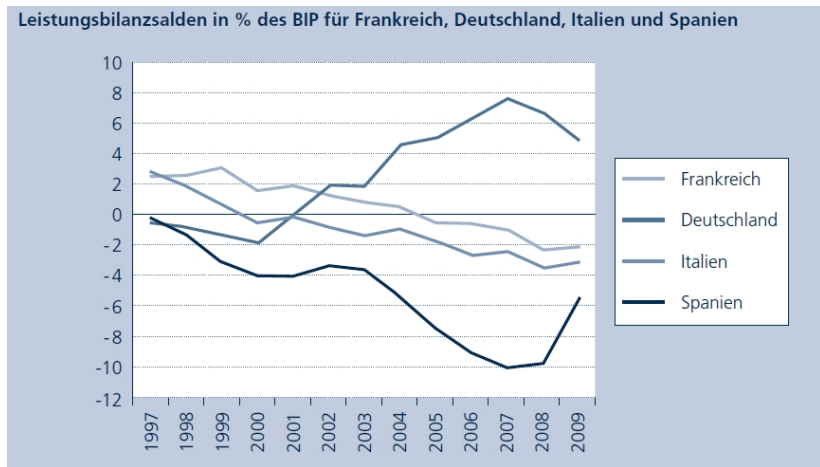


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Germany's affinity to tighten the belt

Cost competitiveness drives the CA

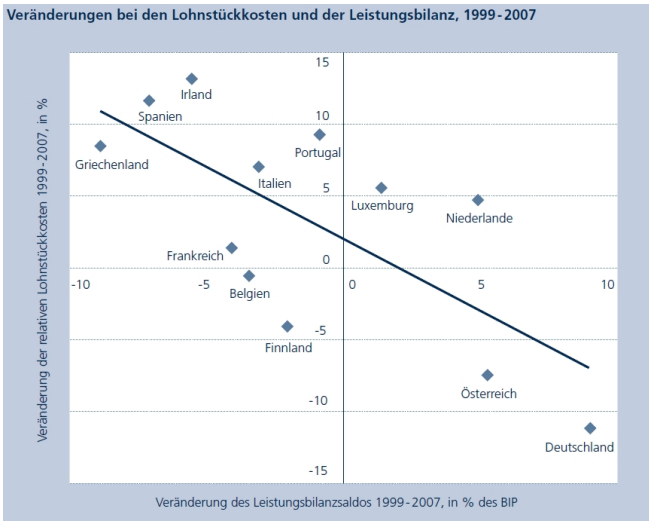


Abbildung: Source: AMECO, Dullien (2010)

Divergence

Persistence and scope

- ▶ Dullien/ Fritsche (several publications) showed, that differences in unit labor costs (ULC) in the EMU (1998-2008) were:
 1. much more **pronounced** und
 2. much more **persistent**
- than comparable deviations in ULC between federal states in the US or between German *Länder*.

Classification of imbalances

Good and bad reasons

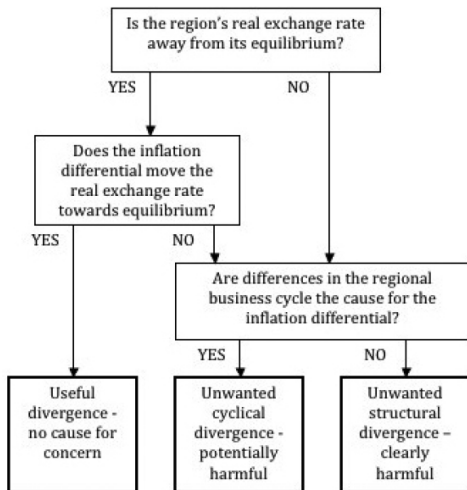


Abbildung: Source: Dullien/ Fritsche (2007)

Germany's affinity to tighten the belt

Dimensions

- ▶ (Inside!) Perception of an „competitiveness“ problem! German „Standortdebatte“ well and alive!
- ▶ Socioeconomic: Massive shifts in the (functional as well as personal) income distribution
- ▶ European: „Bad“ reason for imbalance. Put it differently: Given a stable nominal aggregate demand management by the ECB, very low cost pressure in Germany kept the periphery countries running larger and larger deficits without any effect on average inflation in the EU.

Key currencies, mature currencies,...

- ▶ Stable key currency systems allow export-led growth strategies if and only if there are enough deficit countries. Export-led growth in a globalized world is not a zero-sum-game. It is not necessarily a win-win situation!
- ▶ Certain countries have to play the role traditionally played by key or global currencies (i.e. run deficits) – economic historians always pointed to this issue!
- ▶ In such a scheme, however, running larger and larger deficits might come to an end, even for countries like the US (which had an „exorbitant privilege“ according to Barry Eichengreen) due to debt level effects which undermine the attractiveness of the currency as a safe haven.

Governance in EMU

- ▶ Existing system is not adequate – as most of the other contributors to this workshop already pointed out.
- ▶ Germany's growth model might have (very negative) side-effects if it is not embedded into a stabilizing institutional framework on a European level!
 - ▶ Beggar-thy-neighbour
 - ▶ relative adjustment becomes more difficult as German policy and trade unions seeks to avoid any „above-average“ inflation by talking down the wages (wage restraints) or fiscal policy

Is globalization fostering imbalances?

- ▶ In principle, yes.
- ▶ Beggar-thy-neighbor strategy of China avoids appreciation.
- ▶ This in turn hits the Southern cone countries of Europe more than Germany due to stronger negative employment effects (textile, shoes,...) as well as the Eastern European countries. This makes adjustment more difficult.
- ▶ Danger of global „beggar-thy-neighbor“ rounds: In a European context, ECB kept the demand schedule stable. Who is doing that on a global level?

Thank you for your attention!