German austerity is not only damaging the Eurozone, but is also starving the country of its own much needed investment

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A common argument in the context of the Eurozone's economic problems is that Germany should pursue a more expansive fiscal policy to help generate growth in the rest of the single currency area. **Bob Hancké** *writes, however, that while such a strategy might be justified in terms of its wider effects across Europe, the German economy itself is also struggling from the pressures of restrictive spending policies. He argues that unless the country increases public investment there is a very real chance of Germany developing into a dysfunctional economy, with the only hope for growth residing in exports and citizens struggling with both low wage growth and spiralling income inequality.*

There seems to be some misunderstanding in Europe about the role that Germany should play to clean up once and for all the crisis of the single currency. A large contingent of commentators argue – against the Panglossians who think Germany lives in the best of all worlds and Europe just has to become more like it – that Germany has to take up its historical responsibility and run a more expansive fiscal policy so that other countries can adjust on the back of that. Adjustment has to be symmetric, they argue, especially in a relatively closed economy such as the Eurozone, so that Spain's restrictive policies to bring inflation and deficit under control are matched by a similar expansive stance elsewhere.

There is nothing wrong with this argument. In fact, I have made it at least twice in recent publications. Germany's current reluctance to seize leadership in the Eurozone resembles the catastrophic 'reluctant hegemon' role that the great financial historian Charles Kindleberger attributed to the US in the interwar years. Being the most important economy in the world, yet unwilling to lead, the US made the Great Depression longer and deeper than was necessary – in a similar way to what Germany is inflicting now on the Eurozone. And there is little doubt that a more expansive policy in Germany, a country that can borrow at zero or negative real interest rates in international financial markets, will have beneficial demand effects over all of Europe.

But this argument assumes, like that of the Panglossians, that fundamentally all is well in Germany. That is what gives German finance minster Wolfgang Schäuble's defensive lecturing that other countries should sort out their mess before telling Germany what to do its power. And it explains ex-ECB Chief Economist Otmar Issing's vigorous defence of restrictive German and ECB economic policies. Yet Germany is, actually, a country facing very serious problems. While everybody – especially in the country – has been marvelling at its current account (tellingly, called *Leistungsbilanz* or 'performance balance' in German), its falling unemployment rate and until recently rising growth rate, and attributed these beneficial outcomes in one fell swoop to the Schröder labour market reforms of the early 2000s, a different Germany, leaner and meaner, emerging on the back of that piece of economic restructuring, was ignored.

This is the Germany where more than half of the air force's fighter jets are grounded because of a lack of maintenance: unless they can be stacked on top of each other to halt advancing tanks, planes that do not fly are, frankly, pretty useless. This is the Germany where roads are deteriorating fast – sadly, even in the east of the country, where they were (re-)built twenty-odd years ago.

This is the Germany where school buildings are often in a very bad state and teachers' salaries are now so low in some of the Bundesländer that starting teachers immediately receive lifetime employment status as a civil servant to attract new recruits. This is the Germany where university funding fell for most of the past twenty years. This is the Germany where broadband quality is, at best, acceptable in cities, but where much of the population outside urban centres have little or no decent internet connection. This is the Germany, in other words, in which public goods, which benefit all of society and have positive long-term economic consequences, are starved of the cash necessary to sustain them.


Angela Merkel, Credit: European People's Party (CC-BY-ND-NC-SA-3.0)

Under the guise of saving now to avoid saddling future generations with high debt levels, Wolfgang Schäuble is actually contributing actively to a reduction of the life chances of future Germans to a degree not seen since – yes, you guessed it – the 1930s. If that is indeed how it plays out, he will be the second major German political figure in less than a hundred years, after Weimar politician Heinrich Brüning, to starve his country from necessary cash, and drag the rest of the continent along in that folly.

Moreover, because of the shift in income from low to high earners over the past two decades, and from labour to capital since the late 1980s, those that will suffer most are the weaker income groups. Germany would, indeed, have gone from a relatively egalitarian, well-functioning economy a generation ago, to a dysfunctional one, in which the only hope for growth resides in exports, implying that wage growth has to be kept in check, and in which income inequality has skyrocketed. I wonder how SPD politicians such as Sigmar Gabriel can sleep at night.

At some point we will, I am sure, tire of pointing out the unpleasant parallels with the interwar years. But we're not close to that point now: Germany's domestic and international policies will assure headlines for a while yet.

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