L'Allemagne et la crise de l'euro

Anne-Laure Delatte, CNRS, CEPPR

November 12, 2019

Outline

The Political perspective

The Economic Perspective: European Imbalances

Diverging competitiveness

Section 1

The Political perspective

The reluctant leader

- Germany has actively engaged on all fronts and has been the most important member of the resolution team
- However the German government has persistently pushed a policy response that is motivated by a deep concern to avoid moral hazard by other member states
- Reluctance to fund or favor quick and forceful commitments to regional bailouts or strong interventions by the ECB
- Germany has managed to both help resolve and help exacerbate the crisis (contagion).

Reunification experience

- Solidarity exhaustion
  - After decades of subsidizing and restructuring eastern Germany, the German electorate is wary of committing more money to subsidize their neighbors.
  - "Solidarity goes hand in hand with solidity", W. Schauble, WSJ, 2012
  - "A second Mezzogiorno has emerged", H-W Sinn
- Reunification was followed by a set of reforms to restore competitiveness
  - Sinner/saint dynamics : Germans have made painful sacrifices : welfare cuts, wage restraint, labor market reforms. So others should do the same
  - Successful reforms : Germany has restored competitiveness and growth after 2005

Germany: the island of happiness

- 2013 : 70% German surveyed were satisfied with Merkel's handling of the crisis
- 67% German think that austerity was the right solution versus 80% Spanish think there were better alternatives
- In comparison Cameron receive 2nd best result at 37%
- 75% of Germans were satisfied with the economic conditions in 2013 versus 9 and 4% in France and Spain

Section 2

The Economic Perspective: European Imbalances

Polarization

- Current account balances in Greece, Ireland, Italy and Spain worsened significantly during the first decade of EMU, while Portugal's deficit remained at the very high levels it had reached early
- Meanwhile, Germany and a number of other smaller countries in Northern Europe progressively built current account surpluses
- Balanced current account for the eurozone throughout the period.

Table 1. Saving-investment balance (as a percentage of GDP)

		1999–2001 (%)	2007–2008 (%)	Change 1999:01–2007:08 (%)
Greece[a]	**Current account**	**−6.8**	**−14.5**	**−7.7**
	Investment	22.9	21.6	−1.4
	Savings	16.2	7.1	−9.1
	Public savings	−0.7	−3.0	−2.3
	Private savings	16.9	10.1	−6.7
	Household savings	2.0	0.3	−1.7
	Corporate savings	13.8	9.8	−4.0
Ireland	**Current account**	**−0.3**	**−5.3**	**−5.0**
	Investment	23.4	23.9	0.5
	Savings	23.2	18.7	−4.5
	Public savings	8.3	−0.8	−9.1
	Private savings	14.8	19.4	4.6
	Household savings	...	...	...
	Corporate savings	...	...	...
Italy	**Current account**	**0.0**	**−2.9**	**−3.0**
	Investment	20.4	21.5	1.0
	Savings	20.5	18.5	−1.9
	Public savings	1.3	1.5	0.2
	Private savings	19.2	17.0	−2.2
	Household savings	10.8	10.2	−0.5
	Corporate savings	8.4	6.8	−1.6
Portugal	**Current account**	**−9.5**	**−10.8**	**−1.2**
	Investment	27.5	22.3	−5.3
	Savings	18.0	11.5	−6.5
	Public savings	0.9	−0.5	−1.3
	Private savings	17.1	11.9	−5.2
	Household savings	7.3	4.4	−2.9
	Corporate savings	9.8	7.5	−2.2
Spain[a]	**Current account**	**−3.6**	**−9.8**	**−6.2**
	Investment	25.9	30.1	4.2
	Savings	22.3	20.3	−2.0
	Public savings	2.3	2.9	0.6
	Private savings	20.1	17.5	−2.6
	Household savings	7.4	7.7	0.2
	Corporate savings	12.5	9.8	−2.7
France	**Current account**	**2.2**	**−1.6**	**−3.9**
	Investment	19.9	22.2	2.3
	Savings	22.0	20.6	−1.5
	Public savings	2.1	5.1	3.0
	Private savings	19.9	15.4	−4.5
	Household savings	10.0	10.2	0.3
	Corporate savings	9.9	5.2	−4.8
Germany	**Current account**	**−1.0**	**7.2**	**8.1**
	Investment	20.9	18.8	−2.2
	Savings	19.9	25.9	6.0
	Public savings	0.9	2.5	1.5
	Private savings	19.0	23.5	4.4
	Household savings	10.6	11.6	1.0
	Corporate savings	8.4	11.8	3.4

[a]Households and corporate savings data start in 2000.
Sources: Eurostat, IFS, and staff calculations.

Not only intra-zone imbalances

- Trade with ROW accounts for a large share of imports and exports for all debtor countries, as well as for Germany and France
- In Greece, Italy and Spain, rapid increase in imports from non-eurozone countries

Table 3. Trade balance, goods, as a percentage of GDP (by region)

		Trade balance		Imports		Exports	
		1999–2000 (%)	2008–2009 (%)	1999–2000 (%)	2008–2009 (%)	1999–2000 (%)	2008–2009 (%)
Greece	World	−13.2	−15.1	21.3	21.9	8.1	6.7
	Eurozone	−7.8	−7.7	11.4	10.6	3.6	2.9
	ROW	−5.3	−7.5	9.8	11.3	4.5	3.8
Ireland	World	25.7	19.8	50.7	29.9	76.5	49.7
	Eurozone	19.9	13.1	10.0	7.5	29.9	20.6
	ROW	5.8	6.7	40.7	22.4	46.6	29.1
Italy	World	0.7	−0.5	19.8	21.8	20.5	21.3
	Eurozone	−0.2	−0.4	10.3	9.8	10.1	9.4
	ROW	0.9	−0.1	9.6	12.0	10.4	11.9
Portugal	World	−12.4	−12.4	32.1	32.8	19.6	20.4
	Eurozone	−8.6	−9.0	21.8	21.6	13.2	12.7
	ROW	−3.8	−3.5	10.3	11.2	6.5	7.7
Spain	World	−5.7	−6.8	23.3	23.0	17.7	16.2
	Eurozone	−2.6	−2.5	13.3	11.6	10.7	9.2
	ROW	−3.0	−4.4	10.0	11.4	7.0	7.0
France	World	0.0	−3.2	23.2	23.0	23.2	19.9
	Eurozone	−1.2	−3.5	12.9	13.3	11.7	9.8
	ROW	1.2	0.3	10.3	9.8	11.6	10.1
Germany	World	2.9	6.5	23.9	30.2	26.9	36.7
	Eurozone	1.8	1.9	10.4	13.8	12.2	15.7
	ROW	1.1	4.6	13.6	16.4	14.7	21.0

Source: Direction of Trade Statistics, IMF.

Asymmetric external demand

- Dramatic increase in Germany's exports from emerging Asia, oil and commodity exporters, ans Central East Europe: X2 from 2000 to 2008.
- Contrast with the rest of the eurozone

Table 4. Exports and imports of eurozone countries vis-à-vis emerging Asia, commodity exporters and CEE countries

		Imports (ratio of GDP)		Exports (ratio of GDP)	
		1999–2000 (%)	2007–2008 (%)	1999–2000 (%)	2007–2008 (%)
Greece	Emerging Asia	1.4	2.6	0.2	0.1
	Commodity exporters	2.2	4.3	0.6	0.5
	CEE	0.9	1.5	1.4	1.6
	Total	4.5	8.3	2.1	2.3
Ireland	Emerging Asia	4.5	2.3	3.5	2.7
	Commodity exporters	1.3	1.0	2.7	1.7
	CEE	0.6	0.5	1.0	0.9
	Total	6.4	3.8	7.2	5.3
Italy	Emerging Asia	1.1	2.2	0.9	1.2
	Commodity exporters	1.9	3.2	1.3	2.4
	CEE	1.0	1.8	1.4	2.4
	Total	4.0	7.2	3.5	6.0
Portugal	Emerging Asia	1.1	1.4	0.2	0.9
	Commodity exporters	2.3	3.6	0.8	1.8
	CEE	0.4	0.7	0.2	0.6
	Total	3.7	5.7	1.2	3.3
Spain	Emerging Asia	1.4	2.4	0.4	0.5
	Commodity exporters	1.9	3.4	0.8	1.1
	CEE	0.3	0.9	0.5	0.8
	Total	3.7	6.6	1.6	2.4
France	Emerging Asia	1.2	1.6	0.9	1.3
	Commodity exporters	1.6	2.4	1.4	1.7
	CEE	0.4	1.1	0.7	1.1
	Total	3.2	5.1	3.0	4.1
Germany	Emerging Asia	1.9	3.1	1.3	2.7
	Commodity exporters	1.5	2.7	1.4	3.2
	CEE	2.1	3.7	2.3	4.7
	Total	5.5	9.6	5.0	10.6

Source: International Monetary Fund, Direction of Trade Statistics, and World Economic Outlook.

Asymmetric effect of trade shocks?

- Did trade shocks originating from outside the eurozone contribute to the build-up in current account imbalances for countrie?
- Did the trade shocks have an asymmetric impact on Germany and eurozone periphery?

1. The rise of China : rising export competition but rising Chinese demand for goods and services
2. Higher oil prices: negative effect on oil trade balance but rising oil producers demand
3. The integration of Central and Eastern European countries: rising export competition but cheap capital and labour

Data confirm the hypothesis

- The rise of China generated demand for machinery and equipment goods exported by Germany while eurozone debtor countries were displaced from their foreign markets by Chinese exports
- The terms of trade shock associated with higher oil prices contributed to rising trade deficits but higher income in oil producing countries generated strong demand for machinery and equipment exports from Germany
- German firms set up production platforms in emerging Europe to take advantage of a higher return on capital and lower wage costs.

Capital flows

- Chart plots net and gross international investment position of the eurozone as a whole vis-a-vis ROW.
- Stable **net** position during the first decade
- But **gross** external assets and liabilities have risen substantially : buoyant inward and outward financial flows.

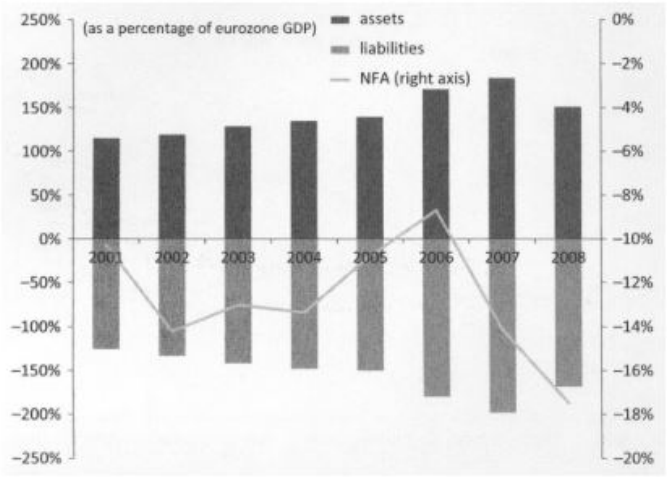


Figure 4. The international investment position of the eurozone 2001–20
percentage of eurozone GDP)

Sources: Waysand *et al.* (2010), World Economic Outlook and authors' calculations.

Capital flows

- Did ROW investors provide external financing to eurozone debtor countries?
- Nope...
- ROW investors held their portfolio debt claims primarily in 'core' eurozone countries, rather than in deficit countries.
- How did the financing of imbalances take place?

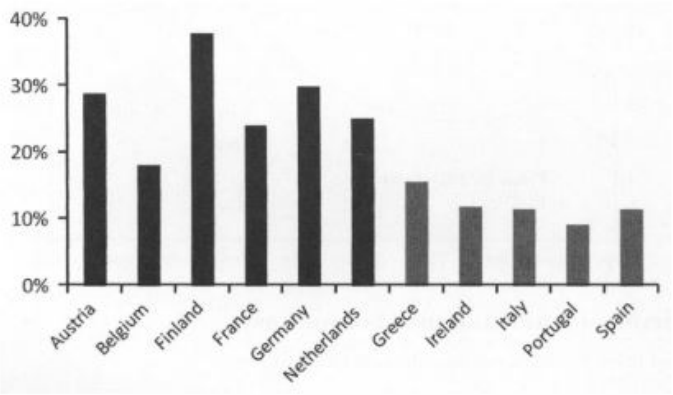


Figure 5. Share of outstanding debt securities held outside the eurozone

Source: Authors' calculations based on IMF, Balance of Payments Statistics and Coordinated Portfolio Survey.

The Financing of Euro zone debtor countries

- Decomposition of net foreign assets for eurozone debtor countries between positions v-a-v eurozone and ROW
- Increase in net external financing is largely due to net liabilities vis-a-vis other eurozone countries

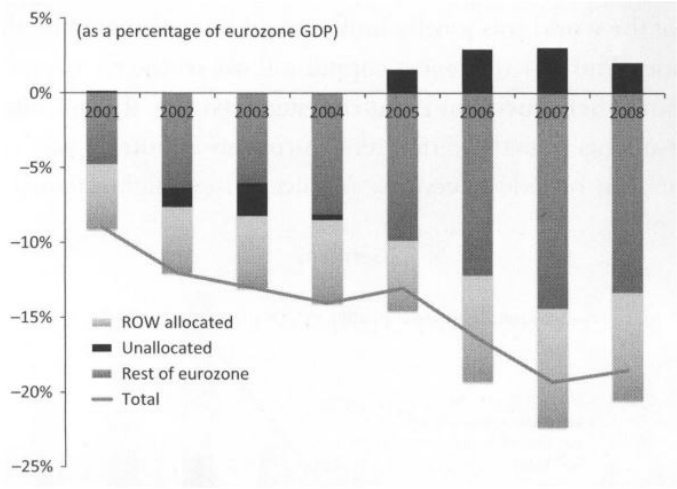


Figure 6. Net foreign assets of eurozone debtor countries (as a percen eurozone GDP)

Source: Waysand *et al.* (2010) and authors' calculations.

The Financing of Euro zone debtor countries

- In turn, core economies have accumulated net foreign assets vis-a-vis the debtor countries and net foreign libailities v-a-v ROW.
- In particular, France and Germany accumulated net foreign assets almost exclusively from the five deficit countries
- Germany accumulated positive net foreign asset towards ROW $\rightarrow$ Germany is a big saver
- France had a growing net liability position vis-a-vis ROW $\rightarrow$ France has intermediated ROW savings to the periphery
- UK played a similar role

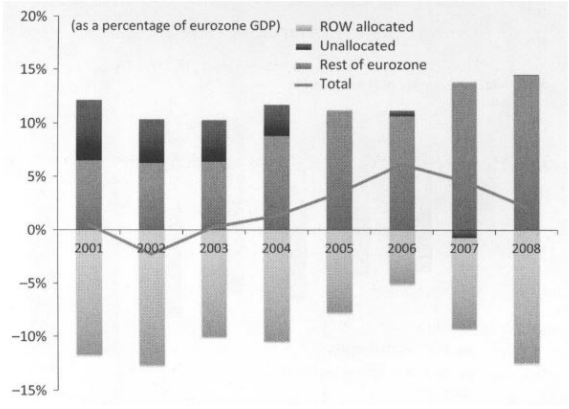


Figure 7. Net foreign assets of 'core' eurozone countries (as a percentage of eurozone GDP)

Source: Waysand *et al.* (2010) and authors' calculations.

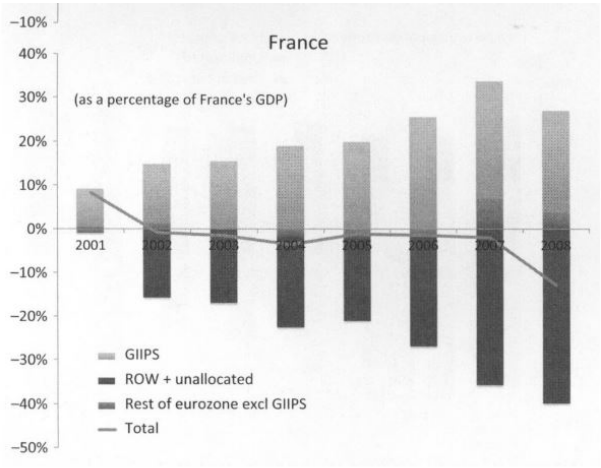


Figure 8. Bilateral net foreign assets of Germany and France

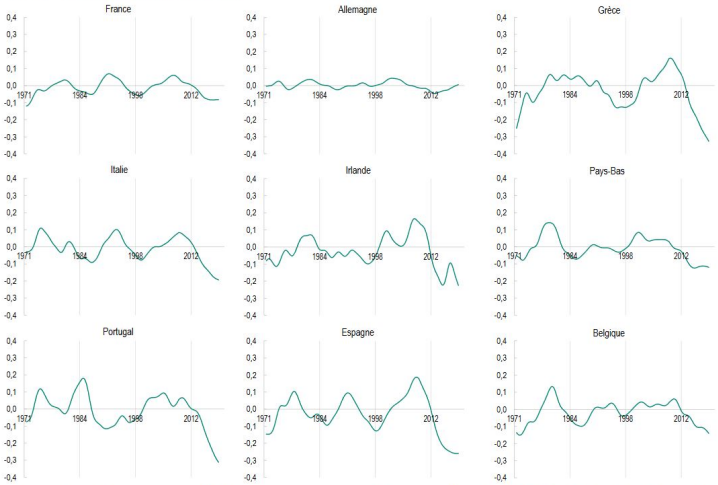
Source: Waysand *et al.* (2010) and authors' calculations.

Credit cycles synchronization

- What did these developments imply for the euro zone credit cycle?
- Rising synchronization of credit cycle was expected with the single currency (at least by the EC)
- Rising synch makes a single monetary policy easier

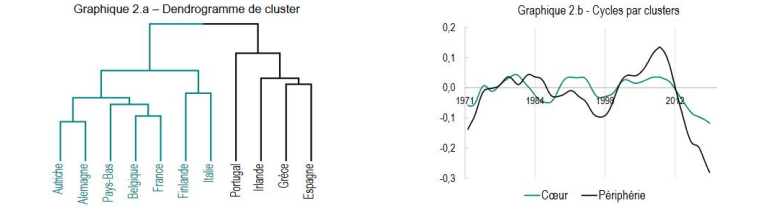
Ambivalent credit cycles synchronization (Coussin and Delatte, 2019)

Graphique 1 – Cycles financiers en zone euro



Lecture : L'axe des ordonnées s'interprète comme l'écart entre la série filtrée et la tendance de long terme (exemple : si le cycle est à 0,1, cela signifie que la série financière est en moyenne 10 % au-dessus de sa tendance de long terme).

Graphique 2 – Regroupement des cycles financiers des pays de la zone euro



Source : calculs des auteurs à partir des données de la BRI (prêts et titres de créances accordé au secteur privé, prix de l'immobilier). Méthode statistique « Singular Spectrum Analysis ».

Section 3

Diverging competitiveness

Distengangling the drivers of REER changes

1. Movements in domestic prices (or unit labour costs) relative to those of trading partners
2. Movements of the euro nominal exchange rate.

- The real appreciation reflected the strengthening of the euro in all five current account deficit countries
  $\rightarrow$ Part of the appreciation of the euro and the ensuing loss in competitiveness was an external shock for eurozone countries
- In Germany the REER remained stable, with the nominal appreciation offset by a decline in ULC relative to trading partners

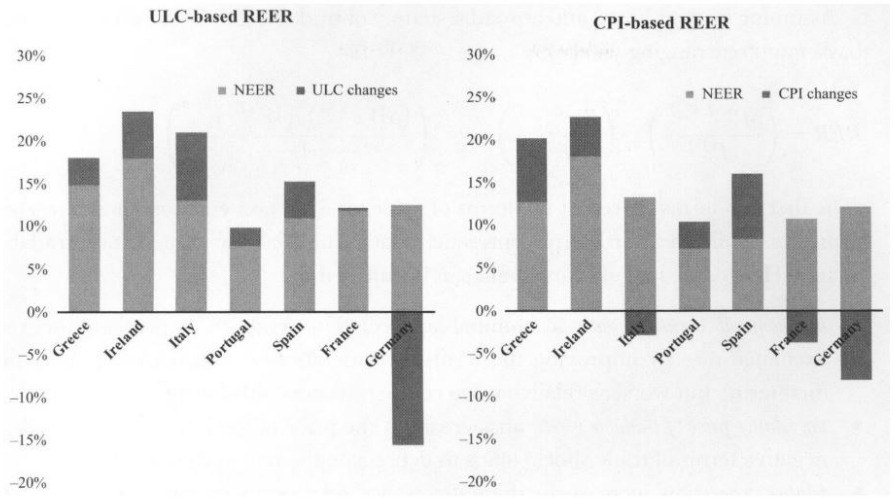
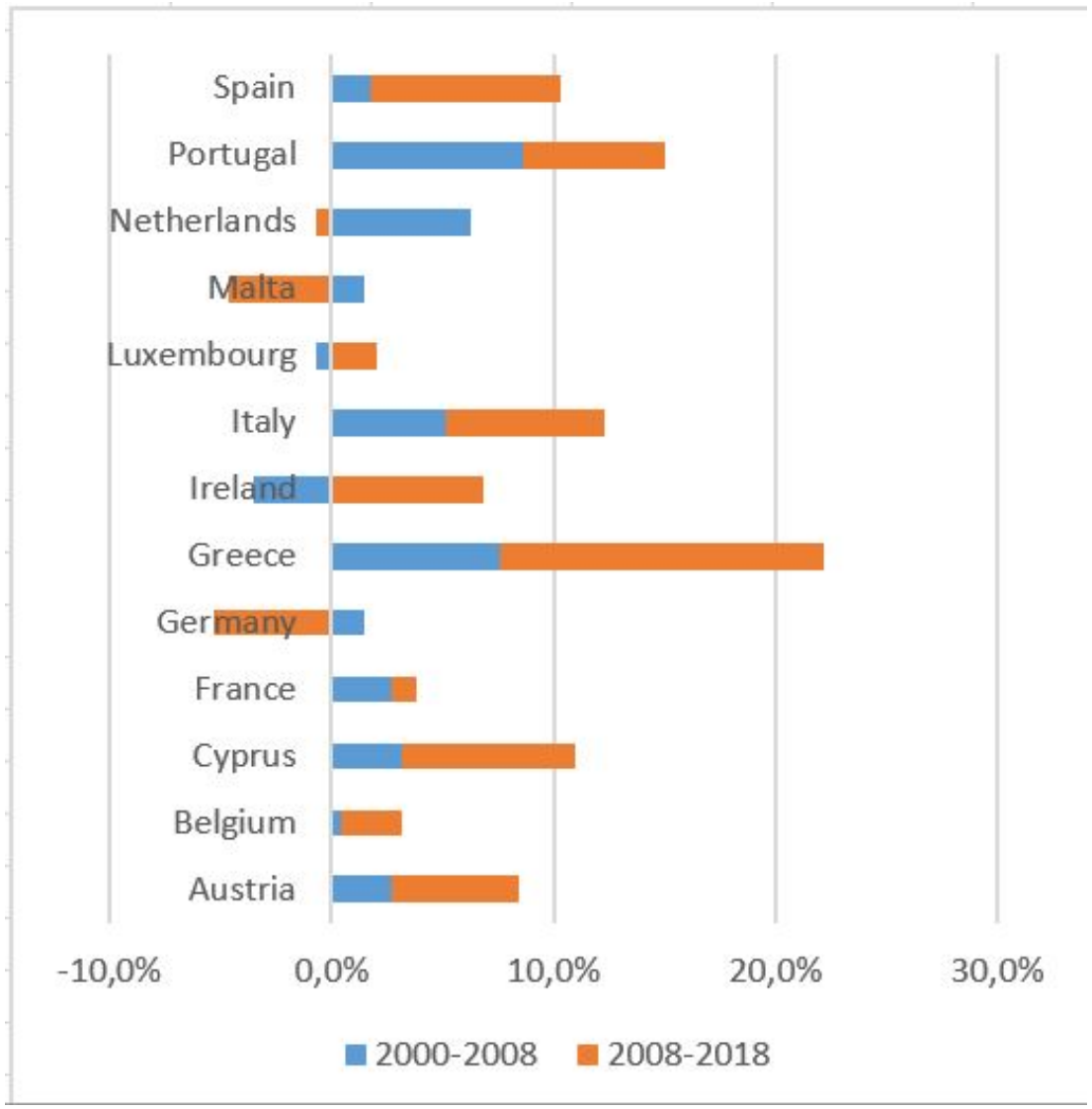


Figure 2. Decomposition of real effective exchange rates, percentage change from 2000 to 2010

Sources: Eurostat (ULC–based REER, 36 trading partners) and IMF (CPI–based REER).

Currency misalignments



Source: Eqchange- CEPII

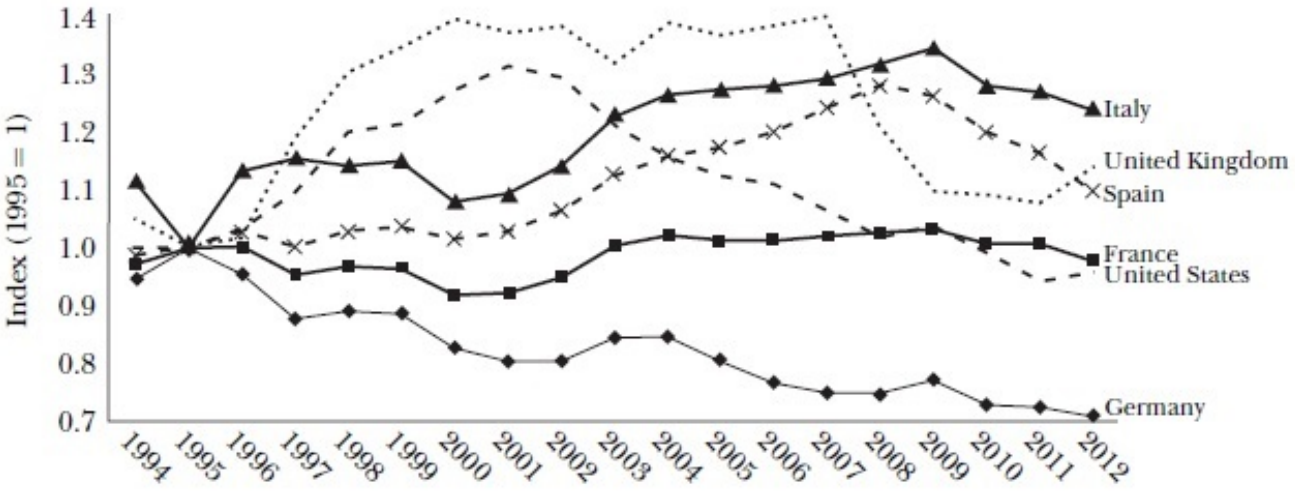
Two different (competing) stories

- The popular view is that the net debtors in the eurozone have accumulated external liabilities because of an increase of their unit labor cost $\rightarrow$ the loss of competitiveness due to domestic forces hypothesis
- But different angle: external factors have contributed to the dynamics of internal imbalances:
  1. External shocks have driven asymmetric effects
  2. The loss of competitiveness in the periphery has been driven by a nominal appreciation
- Current account deficit were financed by capital inflows from France and Germany
- Meanwhile Germany experienced a significant transition

Germany's competitive position

Figure 1

Evolution of Competition-Weighted Relative Unit Labor Costs, Selected Countries, 1994–2012



Source: OECD Economic Indicators.

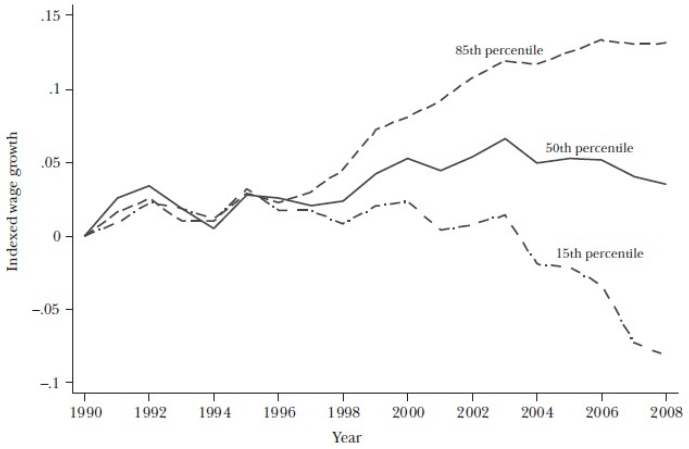
The German miracle?

- Between 2003 and 2004, SPD chancellor G. Schroder (1998-2005) cut the German welfare state, pension and unemployment benefits (Hartz reforms)
- Controversy in the German society
- Triggered the emergence of Die Linke out of SPD
- CDS Merkel wins the elections
- Perceived as the major factor of German resilience to the crisis
- Dustmann, Fitzenberger, Schonberg and Spitz-Oener (2008) disagree with this analysis

Real wage dynamics

- Evolution of real wages in West Germany since 1990 (East German wages are affected after German reunification).
- Real wages at the 15th fell dramatically from the mid 1990s onwards.
- From the early 2000s onwards, median real wages started to fall, and only wages at the top of the distribution continued to rise

Figure 2
Indexed Wage Growth of the 15th, 50th, 85th Percentiles, West Germany, 1990–2008

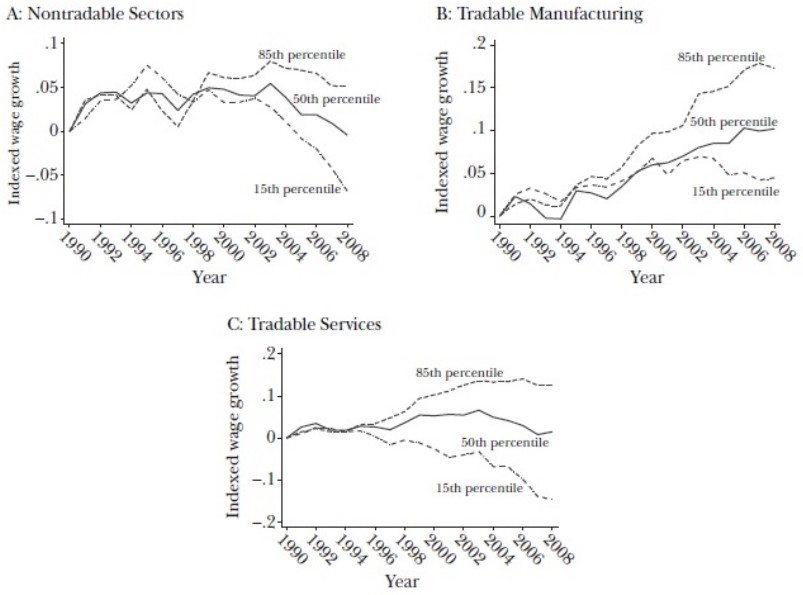


Notes: Calculations based on SIAB Sample for West German Full-Time Workers between 20 and 60 years of age. The figure shows the indexed (log) real wage growth of the 15th, 50th, and 85th percentiles of the wage distribution, with 1990 as the base year. Nominal wages are deflated using the consumer price index (1995 = 100) provided by the German Federal Statistical Office.

Manuf versus services

- Was it particularly pronounced in the tradable manufacturing sector- the backbone of the German exporting industries?
- Chart breaks down along nontradable sector tradable manufacturing sector tradable services sector.
- Real wages in the manufacturing sector rose at all percentiles until the mid 2000s and continued to rise at the median and the 85th percentile.

Figure 3
Indexed Wage Growth of the 15th, 50th, 85th Percentiles, West Germany, by Sectors, 1990–2008



- In the NT sector, no increase until 2000 and then decline.
- Sharpest increase in inequality occurred in the tradable service sector $\rightarrow$ manuf sector has benefited from low wages in other domestic sectors and from cheap imports from abroad.

What happened in the manufacturing sector

- Manufacturing drew on domestic inputs where real wages fell between 1995 and 2007
- Manufacturing sector has made increased use of trade integration with Eastern European countries

Assembly line story?

- Sinn (2006) argued that Germany was becoming an assembly place for foreign produced inputs
- Indeed, increased use of foreign inputs in domestic industries.

Table 1

Evolution of the Share of Value of Total Inputs and Domestic Inputs over the Value of Output, Overall and by Sector, 1995–2007

	Overall	*Nontradable sectors*	*Tradable manufacturing*	*Tradable services*
Panel A: Value of Total Inputs/Output Value				
1995	48.2%	39.9%	66.1%	37.9%
2000	51.0%	37.9%	70.1%	41.4%
2007	53.2%	38.2%	72.9%	41.6%
Panel B: Value of Domestic Inputs/Output Value				
1995	39.8%	35.3%	51.7%	32.4%
2000	40.3%	32.2%	51.7%	34.8%
2007	40.5%	32.1%	51.2%	34.2%
Panel C: Value of Domestic Inputs/Value of Total Inputs				
1995	82.6%	88.3%	78.1%	85.6%
2000	79.0%	84.9%	73.7%	84.0%
2007	76.1%	83.9%	70.3%	82.2%

Notes: Calculations based on input-output statistics from the German Statistical Office (Fachserie 18, Reihe 2, Years: 1995–2007). We classify sectors with export volumes below the 25th percentile of the distribution of export volumes in 1995 as "nontradable sectors" and those with export volumes above this threshold and that belong to the manufacturing sector as "tradable manufacturing." The sectors above this threshold that do not belong to the manufacturing sector are classified as "tradable services."

- But it can not be the whole story

German Labor Market Institutions

- Wage setting process is laid out in contracts and mutual agreements rather than by law (and without the goverment influence)
- Implies a high level of decentralization which requires a lower consensus along the political spectrum
- Meanwhile sharp decline in the share of workers covered by union agreements
- Increase in opening clauses that strengthened the role of firm-based works councils in wage determination relative to trade unions
- Negociations are less confrontational : 5 days of strike per year per 1000 employees versus 103 in France from 2000 to 2009 (only Canada does worse)
- The rise in firm-level differences in wages strongly contributed to the rise in wage inequality in Germany

German labor market flexibility

- The new opportunities to move production in Eastern Europe changed the power equilibrium between trade unions and employer federations, and forced unions and/or works councils to accept deviations from industry-wide agreements.
- "Hartz Reforms" are often credited for spurring German economy
- Plausible that the changes already underway in Germany's labor markets helped in preparing the political ground for the Hartz reforms
- However modest focus on the wage setting process. It was focused on decreasing unemployment benefits
- Lesson for Europe: decentralizing bargaining to the firm level while keeping workers' representatives involved to secure that employees benefit again when economic conditions improve.