



Talking point



The world's leading exporter to become the consumer of last resort?

June 23, 2009

The purpose of economic activity is certainly not exporting. Consumption is closer to the truth. But even closer is the sustainable augmentation of prosperity. What prosperity is, and what makes its augmentation sustainable, however, is open to debate. Some people think that prosperity is all about personal consumption and specifically our current consumption.

There are, however, good reasons for choosing a broader definition of prosperity – namely to also include providing for society and thinking about more than just the here and now. Answers to the question of how to maximise prosperity in this more comprehensive sense need to be founded on behavioural maxims and regulation. What do we Germans have to do in order to come as close as possible to achieving this complex, but meaningful objective? Is it time to scale back our strong focus on satisfying the interests of global clients? Does this mean that instead of promoting exports we should concentrate on satisfying (immediate) consumer's interests?

The latter is essentially what the Nobel laureates Krugman and Stiglitz recommend, as do some German economists – for example, the member of the German Council of Economic Experts Peter Bofinger or economic policy specialists from the parties on the left of the political spectrum. Along this line come the calls for German wages to be raised in order to bolster the purchasing power of working people and thereby to boost consumer demand. This would be a way of reducing Germany's huge trade surpluses, so the argument goes. And at the same time this would provide the notorious deficit countries – such as Spain or the US – with an opportunity to reduce their unsustainable current account deficits. Aren't these propositions very plausible? Isn't it enticing to link the pleasure we Germans gain from consumption with solving the problems of our ailing partner countries? So shouldn't we thank those who submitted the proposals and start making the corresponding therapeutic adjustments?! Or is there a snag somewhere after all? Might the whispering advisors have forgotten something important?

First of all, the facts: the export boom has been over since last summer, with exports falling not simply just a little, but in truly dramatic fashion. In April 2009 they were down nearly 30% year on year. Especially, after we Germans became used to double-digit growth rates virtually every year. Such a decline has the hallmarks of a crash. What does it tell us? Are those lost who rely on exports? So are Krugman and Bofinger right in saying that we have to rely more on domestic demand?

No, because this simple arithmetic is wrong, and wildly so. Germany would be well-advised to deploy its strengths where its markets are. We cannot sell either our cars, our airplanes, our pills, our CAT scanners or our trucks in the domestic market. The volumes required for effective production can only be achieved if we view the whole world as our market. And Germany has something to offer the world not only in these traditional areas, but also in aircraft maintenance, as a provider of technical services to the world, in scientific and musicology training, winegrowing, hotel management, logistics organisation, facility management, energy efficiency, refuse disposal, toll systems, renewable energies and computer games. And finally we also have tourist attractions in our castles and cathedrals. How can one possess all these jewels without wanting to share them with customers from all over the world and doing business at the same time? Does this contradict an attitude focused on looking after one's own interests and which thereby helps partner countries to solve their own problems?

By no means! However, we don't need to accept the short-sighted remedies proffered by Harvard economists and the advocates of the purchasing power theory of wages. There are more sensible options, but above all ones that are more sustainable. Since we Germans – like other societies – will soon experience the long-term ageing of our population, we are structurally on track to import more than we produce and export. Thus, our problem is not so much one of too little consumption at present, but rather of reliably financing our consumption in future, when pensioners are in abundance and there is a shortage of labour (i.e. for at least two decades after 2015).

In order to create a cushion for that period we should continue to generate current account surpluses and use the corresponding savings now to specifically finance infrastructure investments in emerging markets and developing countries, so that the recipient countries become more productive. They can then help us to finance our import surplus from 2015 onwards via dividend payments on these high-yielding investments. Germans should not indulge in overconsumption now and then have to endure poverty in old age. It would be really good if gifted US economists were to recognise the ageing of Japan and some continental European nations for what it is: a reason to ensure sustainable consumption capability after 2015, by producing abundantly for the world now, accumulating savings and investing them productively in the world's rapidly and dynamically expanding countries. This is the productive interpretation of the opportunities for expanding prosperity via globalisation. It would be good if economists from the superpower were to grasp this logic of the free market system! So, good luck to the world's leading exporter! Don't let up: we Germans have something to offer the world, and we won't be a burden on the world with our productive vitality!

Article for "Welt am Sonntag", June 2009

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