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‘Throw Germany out of the euro!’

If Berlin doesn’t change its course, other countries might start seriously suggesting Gerxit

Read this article in German or Russian.

With its world-beating export economy, Germany isn’t the sick man of Europe – but it is making the eurozone sick. By way of a remedy, France’s president Emmanuel Macron recently unveiled far-reaching proposals about how a budget for the euro area could help harmonise its members’ economies. Berlin has made only the smallest of steps towards the French position. If Germany is not more forthcoming, its European neighbours might well start to lose patience – and it is not unthinkable that this will result in calls for the eurozone’s strongest economy to leave the single currency.

The mechanism is similar to putting high-performing pupils up a class at school, and to make sure this doesn’t happen, Germany will need not only to end its policy of fiscal austerity but also to make sure wages finally increase by a tangible margin. This necessity also, incidentally, offers the country’s social democrats the perfect opportunity to escape from the cage of neoliberal thought in which they have so long been trapped and to link more social justice with salvaging the European project.

For far too long, Germany’s workforce was sold a line about its wages being too high to compete internationally; the actual problem, however, is that internal demand is not sufficient. Put another way: it’s not that Germany’s workers are too expensive; it’s that, for years now, their wages haven’t been rising to match their productivity.

As such, the least of German workers’ worries should be that wage growth will make them less competitive – even less so for those on the lower end of the salary scale, who do not produce tradeable goods and therefore are not in global competition. Rather, the weight of international competitiveness falls on the shoulders of workers in export industries, and it is precisely these industries in which employment is booming and there is a growing shortage of qualified labour.

The European project in jeopardy

In recent decades, Germany's eurozone partners have seen wages rise to match gains in productivity and to keep pace with the 2 per cent inflation rate posited by the European Central Bank; German workers, however, often haven't even been given pay rises pegged to increases in productivity. The result of this is a trade deficit for Germany's European neighbours, leaving their governments little other recourse than to alleviate the effects of unemployment with state-funded initiatives; these in turn have to be financed by debt. This means that German jobs are created by the readiness of its eurozone partners to take on sovereign debt.

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In this way, Germany's own fiscal austerity has placed the European project in serious jeopardy: the states affected are mired in debt, forced to deregulate their employment markets and implement cuts to their social security systems, and afflicted by youth unemployment.

All of this has contributed to the current populist destabilisation. As such, German economic policy has run contrary to the inalienable essentials of its post-war foreign policy: 'never again, never alone' – in other words, never acting in international isolation, never acting aggressively. Hints from Berlin that it may be willing to make changes to its economic formula are too hesitant and too late.

What becomes clear is that Germany has turned southern Europe into a periphery that it exploits to keep its export industries running; Berlin has created an EU that is split between a highly productive export economy at its centre and stagnant activity on its southern rim.

An unsustainable model

No conservative economist would seriously claim that the permanent German trade surplus would not, under normal circumstances, naturally lead to the value of its currency going up and its workers becoming more expensive in international comparison. But German workers are still being told that their willingness to forgo pay rises makes them morally superior to lazy southern Europeans. If only the other countries could be a bit more like Germany (Kaiser Willy says 'Hello!').

How long will Germany's workforce – and our neighbours – put up with this?

Since the current German economic model is not sustainable, the French president has made the Federal Republic an offer: a new way of growing jointly and increasing European integration. He wants a mild form of transfer union and a common budget for the eurozone to finance infrastructure and development projects in weaker economies. In other words, it's a version of the federal *Länderfinanzausgleich* that Germany uses to transfer money internally from richer to poorer states.

And indeed, post-war German history shows that it was only decades of subsidies from the richer states that helped Bavaria transform from an underdeveloped net receiver to a productive contributor. Moreover, demand from other states played no small part in this – and powerful unions like IG-Metall never once argued that wage rises in industrialised North-Rhine Westphalia would lead to jobs draining away to underdeveloped, low-wage Bavaria. States such as North-Rhine Westphalia and Baden-Württemberg simply went on ahead, which in turned allowed Bavaria to match rises step-by-step at a later date.

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In other words, those who want to ensure there are no large-scale transfers between eurozone countries need to start by fostering wage growth within Germany. In a sign of how orthodox this point of view has become, corporate Germany has received the dubitable honour of being the first group of capitalists to be told by the International Monetary Fund – not exactly known for its opposition to neoliberal economics – to just get on with it and put wages up in an effort to stop the world economy becoming even more chaotic than it already is. Populism in Europe and the US is a direct result of the lack of common sense in German economic academia and the country's political establishment.

No sacrifice for German workers

To put it very clearly, Germany needs to learn that trade surpluses are not a Prussian virtue, but rather a vice with a corrosive effect on global economic cooperation. That's why the founders of the successful Bretton Woods system argued that countries with surpluses must be punished: British economist John Maynard Keynes even suggested remitting income from positive balances of trade back to countries with deficits on a low-interest basis; by comparison, Macron's suggestions for a eurozone budget are extremely moderate.

What's more, this way forward would not require any sacrifices on the part of German workers – or the country's unemployed. Much of Germany's sky-high trade surplus ends up as financial investments; in other words, as speculation with absolutely no contribution to creating value (the sum of global gross national products is less than one tenth of the annual volume of speculation on financial markets).

In the end, a eurozone budget will not be enough to really even out the differences within Europe; given the unpopularity of the solidarity surcharge on income tax in Germany introduced to pay for unification – to keep the country together on a national level – it is easy to see just how small the political room for manoeuvre is for those proposing a transfer union. So if Berlin doesn't flank a eurozone budget with strong real wage increases as well as tangible expansion in welfare and infrastructure spending, the end of the euro will be inevitable – or the end of the euro with the German monolith at its core.



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