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GREEK DEBATE

Germany is unfit for the euro

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Finally a deal, but I am still sceptical

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How should the Eurozone handle

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TIME FOR THE EURO AREA TO BECOME PART OF THE SOLUTION

By: Jörg Bibow and Andrea Terzi

In recent months the internal match to the U.S.'s large external deficit has reached the upper hand in the debate on global imbalances, now featuring an ongoing global financial crisis with the U.S. subprime mortgage crisis as its epicenter. Arguably, the sub-prime meltdown is only the tip of the iceberg. The broader event is the end of the U.S. property price boom, which has pulled the rug from underneath U.S. consumer spending power. The issue is that the U.S. consumer was the prime force behind U.S.-led global growth and the related emergence of global imbalances since the early 1990s.

Optimists believe that emerging market economies can fill in for the U.S. consumer who finally seems to have run out of steam. Emerging markets are in such good shape today, the argument goes, that they can be the new global growth engine even as their former sponsor of export-led growth falters. 'Decoupling' hopes are paired with the idea that

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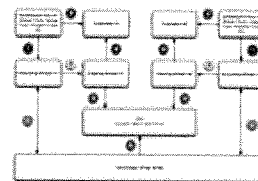
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EUROINTELLIGENCE BRIEFING NOTE



The Flaws of the Central Counter Party Idea

16.03.2011

By: Satyajit Das

This paper takes a detailed and critical look at the CCP - the basic idea behind, its design, risks and effects on the market.

OUR PARTNERS



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Muddling through is

Greece?

By: Daniela Schwarzer
and Sebastian Dullien
01.03.10


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By: Wolfgang Münchau
16.02.10

strong exports will prevent recession as the subprime mess is taking its toll on domestic demand. Rather pleasantly, such swapping of roles in generating global growth would seem to foster a benign unwinding of global imbalances at the same time too.

It is not clear however whether these hopes are consistent with the increased pressure on China for a more decisive renminbi revaluation. Little would be gained by unraveling growth in the very region that the decoupling optimists seem to pin much of their hopes on. For many years U.S. debate has zoomed in on the bilateral trade deficit with China, which reached some \$300bn last year. While being truly large and amounting to more than one third of the U.S.'s current account deficit, don't miss that China's current account surplus was still in the same order of magnitude as Switzerland's and globally quite insignificant until 2003, whereas the built-up of the U.S. external deficit began in the early 1990s. Driven by numerous forces China's current account surplus has indeed ballooned in recent years. Yet, a single-minded focus on China is at risk of overlooking that it may be on others to boost their economies as the U.S. engine stalls.

no option

16.03.2011
By: Wolfgang Münchau
 There are only two ways to resolve a debt crisis: through bail-out or through default.

GLOBAL ECONOMIC SYMPOSIUM

A repository of solutions to global problems

25.06.2010

For two years now, leading policy makers, academics and businessmen have been meeting for discussions in the Global Economic Symposium to provide concrete solutions for the most pressing global governance issues the world will be facing this century. Here is the result of these discussions: a repository of concrete policy proposals.

In particular, it is curious that European and Japanese authorities too have recently become more vocal in demanding renminbi revaluation. Representatives from the euro area even paid a special visit to Beijing to underline their request. It is true that the bilateral trade imbalance between China and the euro area is catching up with the U.S. one. And it is also true that the economies of the euro area and Japan are slowing significantly. The point is however that the euro area and Japanese authorities are playing a rather disingenuous game of distracting from their real – homemade! – problem, namely their apparent inability or unwillingness to boost domestic demand.

The issue is not an altogether new one. Japan and Germany, the euro area's largest economy, have shared an interesting experience since the early 1990s: protracted domestic demand stagnation. Back in 1991, when the U.S. current account was last in balance, both Germany and Japan were in the final stages of an economic boom. Since then the second and third largest economies in the world respectively have become increasingly reliant on exports to keep their economies afloat. Japan's 'lost decade' of deflation is widely seen as the foremost warning of policy blunders to

avoid. Arguably, a no less remarkable policy disaster was engineered by Germany. But note: as the cumulative contribution of private consumption to German GDP growth in the 2001-07 period was zero, the country has claimed the title of export world champion and saw its current account surplus soaring, reaching some \$198bn last year. Amazingly, not even the strong euro was able to forestall ever new German export records – shedding some interesting light on the popular view of Germany as being handicapped by all-pervasive structural rigidities.

While deflationary Japan seems to be forever excused for having an undervalued currency and accumulating soaring current account surpluses (reaching some \$206bn last year), Germany's nearly as huge external imbalance has meanwhile disappeared from sight, it seems, by amalgamation with the euro area. In 2002 the IMF acutely observed that "external imbalances across the main industrial country regions widened steadily during the 1990s ... [with surpluses being] dominated by the euro area and Japan, respectively". Today, Germany's and Japan's combined current account surplus is still bigger than China's. But China alone is under pressure to revalue its currency.

The euro area authorities even feel justified to make trips to Beijing since they have so far 'borne the brunt of dollar depreciation', or so their whinging goes. Yet, with a balanced consolidated current account position, despite the quadrupling of the oil price and the euro's 'brutal' appreciation, it is not clear that the euro area may be a victim of unfortunate external events. Quite the opposite. Following five years of near stagnation in 2001-5, the euro area's belated joining of the global boom owed primarily to the favorable global environment. It is an outstanding and much ignored fact that an economy similar in size to the U.S. fails to generate domestic demand growth, but relies on exports to kick-start growth instead. The same held true for the period 1992-7, before the U.S.'s 'new economy' boom bestowed a brief recovery on the euro area just in time for the euro to get off ground, when prospective members' attempts at proving their fiscal rectitude by squeezing their budget deficits below 3 percent of GDP at any price had unnecessarily held back their economies.

Long periods of subdued domestic demand growth briefly interrupted by booms that owe to favorable external developments are ill-suited stylized facts for

any large economy, but they do describe the euro area well. Major member countries are still trapped in a small-country mindset apparently aimed at proving international credibility and focusing on export-led growth, balanced budgets, and price stability at all costs. It is true that large imbalances have built-up inside the euro area (and the larger European Union too) that owe primarily to Germany's wage deflation and which will complicate governance for some time to come. But the euro area does have the means to sustain domestic demand as the U.S. economy slows, and thereby foster the much-hoped-for 'decoupling' too. Its unwillingness to use its own means does neither warrant any Japan-like excuse for inaction nor justify trips to Beijing. Global imbalances had their roots in export-led growth strategies enjoying popularity in much of the world and way beyond China. As the U.S. slows there is little sense in excusing everyone except China for not getting off old habits. Given all the talk about the euro challenging dollar supremacy, it may be time to invite a player who has so far been missing from the field to finally become part of the solution rather than being part of the problem.

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Player or Global Drag?'
(Palgrave-Macmillan,
November 2007) analyzes in
more depth Euroland's role in
the world economy.*

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