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Let's Blame Germany for its Current Account Surplus!?

Thomas Jost

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Let's Blame Germany for its Current Account Surplus!?

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Mai 2014

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Abstract:

Germany is often criticized for its large current account surpluses. The surpluses are caused by differences in economic growth between Germany and its major trading partners, the innovative strength of German enterprises, as well as improved relative price competitiveness and a successful integration of German enterprises into global sourcing and production networks. In addition, they are associated with inter-temporal saving and investment decisions of German households and businesses. Until the outbreak of the economic and financial crisis the elimination of exchange rate risk within the European Economic and Monetary Union (EMU) induced large net capital exports of Germany into the peripheral economies which mirrored the current account surpluses. The surplus against EMU economies has halved in recent years, whereas it has continued to rise against third countries. International trade is not a zero sum game. Increasing German exports contribute to growth in other economies due to their high import content. It does not make sense to raise German imports artificially via "push button". Stronger wage growth and higher government expenditures, which are often claimed, could undermine successful economic reforms in Germany. In the longer term, due to demographic factors, the German current account surplus is expected to decline significantly.

Keywords: Current account, European Monetary Union, economic growth

JEL: F32, F43

Deutscher Abstract:

Deutschland wird oft wegen seiner hohen Leistungsbilanzüberschüsse kritisiert. Die Überschüsse sind durch Wachstumsdivergenzen zwischen Deutschland und seinen wichtigsten Handelspartnern, die Innovationskraft der deutschen Wirtschaft, eine verbesserte relative preisliche Wettbewerbsfähigkeit und die erfolgreiche Einbindung deutscher Unternehmen in globale Beschaffungs- und Produktionsnetzwerke entstanden. Zudem stehen sie in Zusammenhang mit intertemporalen Spar- und Investitionsentscheidungen der deutschen Haushalte und Unternehmen. Bis zum Ausbruch der Wirtschafts- und Finanzkrise induzierte die Beseitigung des Wechselkursrisikos innerhalb der Europäischen Wirtschafts- und Währungsunion (EWU) hohe Netto-Kapitalexporte Deutschlands in die Peripherieländer der EWU, die den Leistungsbilanzüberschüssen spiegelbildlich gegenüberstehen. Gegenüber den EWU-Ländern hat sich der deutsche Leistungsbilanzüberschuss in den letzten Jahren halbiert, gegenüber Drittländern ist er jedoch weiter gestiegen. Der internationale Handel ist kein Nullsummenspiel. Steigende deutsche Exporte tragen aufgrund ihres hohen Importanteils zum Wirtschaftswachstum der deutschen Handelspartner bei. Es macht keinen Sinn, die deutschen Importe „per Knopfdruck“ zusätzlich zu erhöhen. Höhere Lohnsteigerungen und zunehmende Staatsausgaben, wie sie oft gefordert werden, könnten die erfolgreichen Wirtschaftsreformen der letzten Jahre in Deutschland untergraben. Längerfristig ist aufgrund der demographischen Entwicklung mit spürbar sinkenden deutschen Leistungsbilanzüberschüssen zu rechnen.

Let's Blame Germany for its Current Account Surplus!?

1. Introduction

Since several years, Germany is criticized for its large current account surpluses. Economists like Nobel Prize winner Paul Krugman, the EU Commission, the U.S. Treasury and the Social Democratic Party of Germany see a bigger problem in the current account surpluses of Germany. The U.S. Treasury complains that the large German surplus exerts a deflationary pressure on the peripheral countries of the European Economic and Monetary Union (EMU) (U.S. Department of the Treasury, 2013, p. 25). Krugman argues that Germany has done nothing to reduce its trade surplus against EMU crisis countries, while these economies were able to sharply reduce their trade deficits due to an "imposed austerity". Therefore, adjustment would be asymmetrically at the expense of the peripheral countries (Krugman, 2013a and 2013b).

High current account surpluses are going hand in hand with large deficits of the German capital account. Hans-Werner Sinn has often criticized high outflows of capital due to a weakness of domestic investment in Germany. This development was prolonged by the European TARGET 2 payment system and wrong policy incentives which made possible the financing of the current account deficits of the peripheral countries (Sinn, 2012, pp. 221 ff.).[1]

The EU Commission has recently released a report as part of its "Macroeconomic Imbalance Procedure", in which the Commission calls for corrective measures against the large German current account surplus (European Commission, 2014). The Commission proposes a stimulation of domestic demand and investment in Germany. But, such a policy could raise new problems. In Germany there is also a rising fear among business representatives that the grand coalition could adopt measures in reaction to international pressure that could weaken the German export sector and Germany as an international business location (Handelsblatt, 2014).

[1] As peripheral countries we classify Greece, Portugal, Ireland, Spain and Cyprus, countries which have received funds and guarantees under economic adjustment programs during the European sovereign debt crisis of recent years. However, some other EMU economies also recorded sizeable current account and trade deficits, e.g. Italy and France. The data included in this study for the Euro area partner countries of Germany refer to the 17 other EMU economies as of early 2014. Some countries have been EMU members only in recent years. However, they are included in the data, underlying the figures and tables, as EMU members. As they are smaller countries, the main statements made herein are thus not distorted.

Some economists criticized that economic policy in its analysis of the crisis in the Euro area is concentrating on individual indicators, such as the current account balance. But, does the current account still play a role in a world of highly integrated financial markets, in which gross capital flows exceed the current account balances by many times which implies a far higher risk, for example of a "sudden stop" of capital inflows (Obstfeld, 2012)?

All these issues that are highly controversial cannot be analyzed in this short article. However, some arguments are listed, showing that Germany's current account surpluses against other EMU economies are not the result of an "unfair" economic policy and do not come at the expense of its partner countries. In addition, these surpluses cannot be eliminated via a "push button" economic policy. The surpluses arose due to divergences in economic growth between Germany and its main trading partners, an improvement in relative price competitiveness, the specific product range of the German export economy, the successful internationalization efforts of German enterprises and inter-temporal saving and investment decisions of domestic and foreign savers and investors. However, the current account surpluses and the corresponding capital account deficits were also driven and prolonged by flaws in the design of EMU.

Since 2008, a gradual adjustment of the current account divergences within the Euro area is in progress. However, the German current account surplus against third countries is still growing and it is expected to last for a longer period. But, this surplus is largely offset by deficits of other EMU economies, so that the current account balance of the common economic and monetary area of the EMU imposes no major threat for the world economy and the exchange rate of the Euro against other currencies.

2. The development of the German current and capital account since the start of EMU

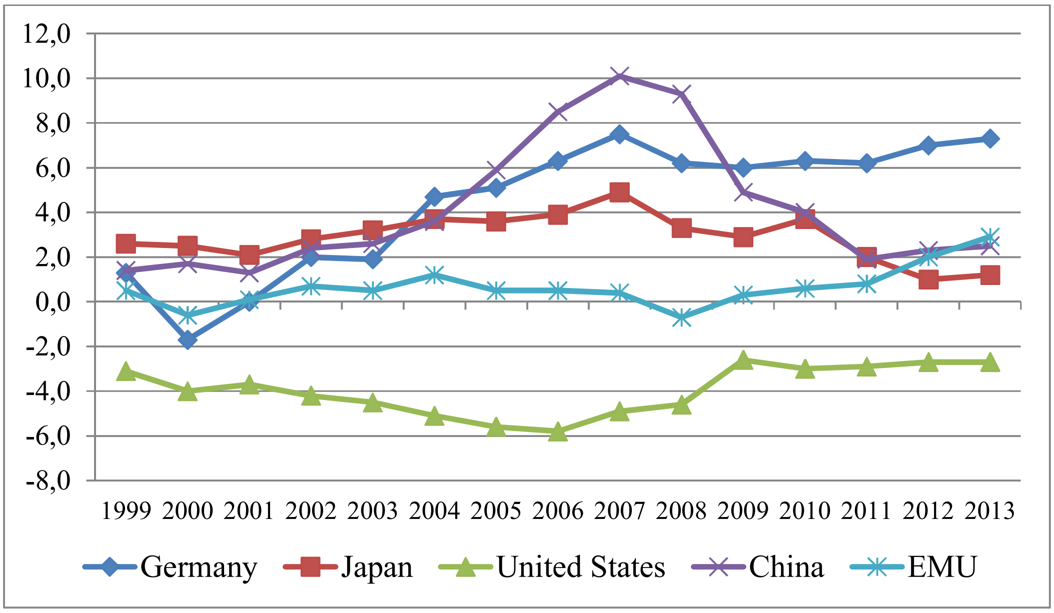
Since the 1950s the German current account balance was mostly positive. Until 1990 deficits were only recorded during short periods of economic downturns. After German reunification, Germany experienced one of the largest historic swings in the current account, which resulted in a current account deficit for a period of more than a decade (Deutsche Bundesbank, 2014, pp. 40f.)

Two years after the start of EMU in 2001 Germany again recorded a current account surplus, which increased to 7 % in relation to gross domestic product (GDP) until 2007. Since then, the

German current account balance remained above 6 %, despite a decline during the global economic and financial crisis of 2008/09. Therefore, the German surplus is above the ceiling of 6% of GDP, which is considered critical by the European Commission within the framework of macroeconomic surveillance requiring intensive examination of the causes and effects (European Commission, 2013).

Since 2009, Germany has a larger current account surplus as China, whose surplus in relation to GDP has declined from 10 % in 2007 to 2 ½ % in 2013 (Figure 1). In contrast, the United States and the United Kingdom have had large current account deficits since more than two decades. Like Germany, there are other countries with relatively high current account surpluses, for example Korea and Switzerland with surpluses of 4 ½ % and 10 ½ % in 2013.

Figure 1: Current account balance of Germany and selected other economies (in % of GDP)



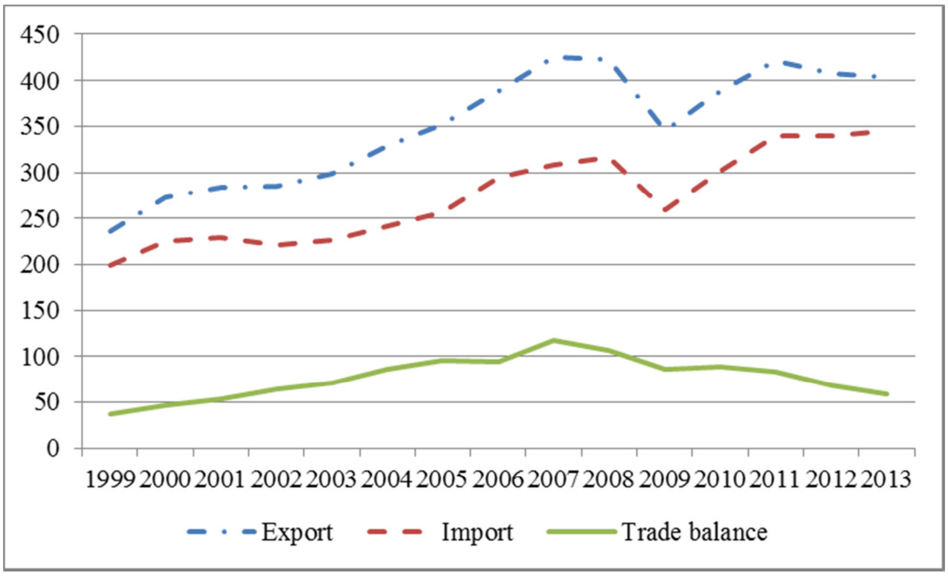
Data Sources: Deutsche Bundesbank (2014) and IMF (2014)

Until 2011, the large German current account surplus was not regarded as a global problem (Sengupta/Aizenman, 2010, p. 2). As the current account balance of the Euro area as a whole was largely balanced from the beginning of EMU in 1999 until 2011, Germany and its partner countries did not contribute to the global current account divergences and associated exchange rate tensions. The traditionally high current account deficit of the United States stood in contrast to large surpluses of China and some other Asian countries. Since 2012, the current account balance of the Euro area has increased to a surplus of 2 %.

As described above, the German current account surplus against EMU economies went into the focus of a debate during the ongoing sovereign debt and economic crisis of the peripheral EMU economies. Besides Germany some other EMU countries are also regularly recording large current account surpluses, e.g. the Netherlands and Luxembourg with an average surplus of 10 % and 6 % in relation to GDP during the period of 2011 to 2013. On the other hand, Greece, Portugal, Ireland, Spain and Cyprus regularly recorded large current account deficits until the outbreak of the crisis in 2007/2008. Since then their deficits have dropped significantly or turned into a surplus.

In 2007, the year of the outbreak of the global financial and economic crisis, the German current account surplus against EMU economies reached Euro 108 billion. Until 2013, it has almost halved to Euro 56 billion. Against Euro area partners, Germany has a persistently high deficit in trade in services (of an annual average of Euro 20 billion in the years 2011 to 2013) and a surplus in the balance on factor income (of an annual average of Euro 33 billion during the same period), mainly resulting from growing net foreign assets against EMU partners.

Figure 2: German trade balance against EMU economies (EUR billion)



Data source: Statistisches Bundesamt (2014)

Over the entire period the German current account balance against EMU economies mirrors the development of German foreign trade. Figure 2 above is showing the gradual building-up of the trade surplus until 2007 and the decline since then.

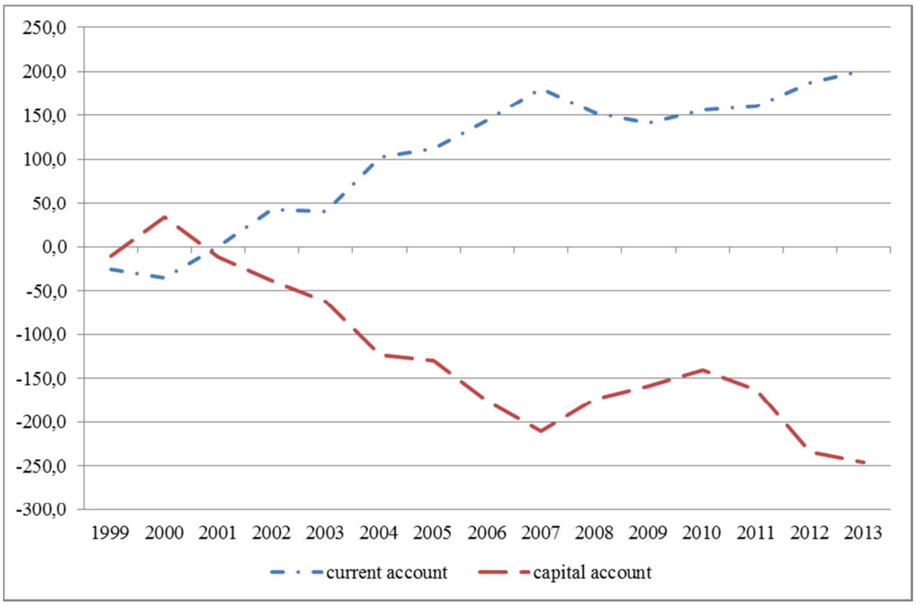
Before we analyze the determinants of the German current and capital account more in detail, we should raise the question whether current and capital account balances still play a role within a monetary union with a common currency. In an area with a common currency and a single monetary policy, like the United States or Germany, hardly anyone is interested in bilateral current account balances between individual federal states. Data for current and capital account balances of individual states or provinces are also not recorded. Nobody would come to the idea to analyze potential large current account surpluses of California or Bavaria against other US or German states or provinces. The causes of the success of export-oriented Bavarian or Californian enterprises wouldn't be problematized, and imports of Bavaria or California from other federal states with a current account deficit wouldn't be promoted by Government policy with the aim of bringing the current account balances of the individual federal states into balance. On the other hand, EMU economies share a common currency, but no common fiscal policy and insufficient common supervisory rules, so that the current account balances within the Eurozone are often considered as important (Obstfeld, 2012, p. 16).

3. The relationship between the current account and the capital account

An isolated view of the performance of the current account and its determinants makes little sense. Simultaneously to its growing current account surplus Germany has recorded an increasing capital account deficit of the same size (Figure 3). The capital account has always the same size as the current account with an opposite sign according to the balance of payments mechanics (apart from unavoidable errors and omissions in the coverage).

It is often argued that the current account, driven by differences in relative income growth and real exchange rates changes, must be "financed" by the capital account. The current account so to speak determines the capital account. In contrast, Eugen von Böhm-Bawerk, already at the beginning of the 20th century, argued that the capital account commands and that the current account follows, so that the capital account determines the current account development. Nowadays it is more or less consensus that the causes and the effects of the development of gross flows in the current and capital account do not move only in one direction. Rather, the current and capital account balances are simultaneously determined by the supply and demand behavior and investment decisions of millions of economic agents (households, financial and non-financial enterprises and the government). They are equilibrated on financial and goods markets by the movement of prices of goods and services as well as returns on money and capital.

Figure 3: German current account and capital account balance (Euro billion)



Data source: Deutsche Bundesbank (2014)

Therefore, the development of the current account cannot be analyzed without a critical analysis of the current account balance. In the years after the start of EMU German capital exports into EMU periphery countries strongly increased, driven to a certain extent by the elimination of exchange rate risk within the Euro area. Therefore, German capital exports, for example, contributed to the financing of the boom in the real estate sector in Spain and Ireland and the excessive consumption and government spending in Portugal and Greece (Sinn, 2012). After the outbreak of the crisis in 2008, the peripheral countries could attract financial capital via the TARGET 2 payment system, which led to a strong increase of German net foreign assets in the form of Bundesbank's claims against the peripheral countries. A strong dispute arose about the economic interpretation of these TARGET 2 imbalances. The arguments should not be repeated in this article. But, it is not deniable that German net foreign assets in the form of TARGET 2 claims would fully lose their value in case of a collapse of EMU. Therefore, the positive German net foreign assets which mirror the cumulative current account surpluses of past years are subject to additional risks besides their general market risk.[2]

4. The current account balance and its relationship to saving and investment

The German current account surplus reflects an excess of national saving over investment in Germany. In the pre-crisis period from 2000 to 2007, the change in the net savings rate[3] of the German non-financial corporate sector (with 5.7 percentage points) and of the household sector (with 2.3 percentage points) contributed the most to the positive turnaround in the current account (of 9.3 percent in relation to the GDP) (table 1). Two-thirds of the current account improvement resulted from an overall increase in national saving (European Commission, 2014, pp. 25f.). One-third was due to decreasing domestic investment.

Table 1: Change in current account and contribution of savings and investment by sector (in percentage points of GDP)

		2000-2007	2007-2012
	Excess savings/current account balance	9.3	-0.5
Total economy	Savings	6.2	-2.5
	Investment	-3.0	-2.0
	Excess savings/current account balance	5.7	0.3
Non-financial corporate sector	Savings	4.8	-2.1
	Investment	-0.9	-2.4
	Excess savings/current account balance	1.3	-0.3
General government	Savings	0.9	-0.2
	Investment	-0.4	0.1
	Excess savings/current account balance	2.3	-0.2
Households	Savings	0.9	0.0
	Investment	-1.4	0.2

Source: European Commission (2014)

In a market economy national saving and investment depend to a large extent on private-sector decisions that can only be partially controlled by economic policy. The increase in private saving

[2] For the debate about the problems of the TARGET 2 balances see e.g. Sinn/Wollmershäuser (2012) and Bindseil/König (2012).
[3] Excess of savings over investments in relation to GDP.

of the household sector in Germany is rational against the background of demographic trends and the need for increased retirement provisions. Increasing savings and declining domestic investments by German companies are mainly due to the fact that German enterprises expected higher future returns on investments abroad and especially in the catching-up EMU peripheral countries, which led to a diversion of investment from Germany to these economies until the outbreak of the crisis. Often, these expectations were not met, in retrospect. For example, German banks and private investors suffered high losses in the wake of the Greek debt relief.

Rising net capital exports and the building-up of net foreign assets associated with a current account surplus may be advantageous when net foreign assets yield a positive real rate of return, especially in a country like Germany, with a rapidly aging population, in which net foreign assets can be reduced via growing imports and lower export dynamics with a declining employment rate in the future. It is expected that the German current account surplus in relation to GDP ratio will decrease by about 3.5 percentage points over the next 25 years (Ma/McCauley, 2013, pp. 4 ff.).

5. Determinants of the current account and limits for policy interventions

The growing German current account surplus is not caused by unfair economic policies at the expense of other Euro area countries. Neither Germany has artificially devalued its currency, nor has Germany followed a policy of "wage dumping" or undue trade practices. This would also not be possible for an EMU member state. Nevertheless, Germany is often criticized for low wage growth and for a high savings rate and low investments. This criticism raises claims to achieve a reduction of the trade and current account surplus by a change of economic policy. It should not be overlooked that the problems arose to a large extent in the peripheral countries and reflect flaws in the design of EMU. The stronger deterioration of price competitiveness in the peripheral EMU economies until the outbreak of the crisis was not recognized as a warning signal by the EU commission and the national governments. On the other hand, what could Germany do and what should it not do in order to reduce its current account surplus?

5.1. Wage and price dynamics and relative price competitiveness

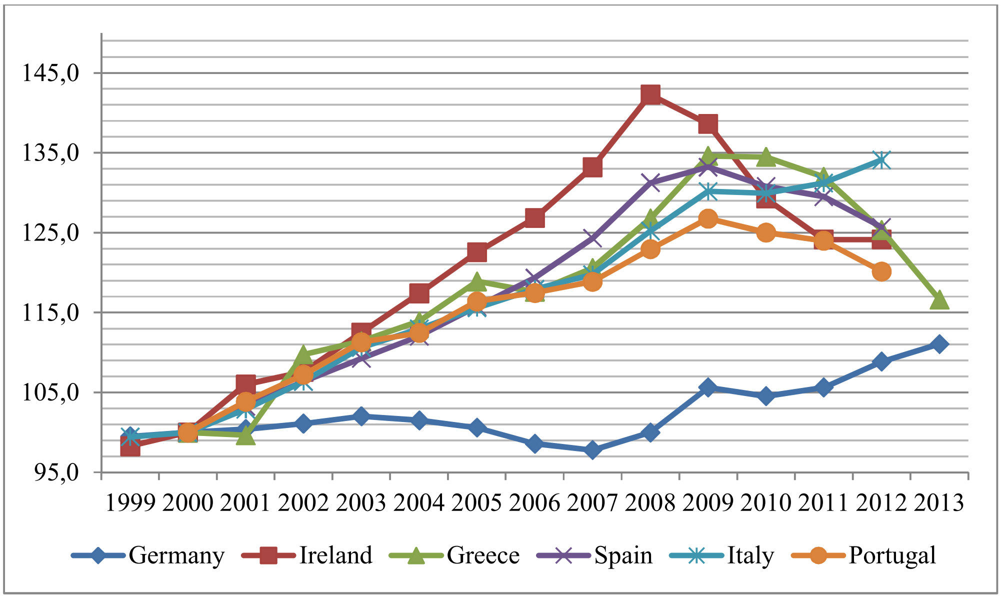
The easiest way to reduce a current account surplus would be a stronger appreciation of the nominal exchange rate, which could result in a flexible exchange rate regime on the foreign exchange market. In the Euro area exchange rate realignments are not possible, as the currencies of EMU member states were fixed at the beginning of the monetary union and the national currencies were replaced by the Euro. In the 1970s, 80s and 90s, a sharper increase in Germany's current account surplus was very often slowed down by a nominal appreciation of the D-Mark. In particular, the economies of southern EU countries (like Greece, Italy, Portugal and Spain) were able to improve their relative price competitiveness and thus their bilateral current account balance against Germany by a depreciation of their currencies against the D-Mark. A nominal appreciation of a German currency would also improve the German terms of trade making foreign products relatively cheaper, which would induce the often desired increase in German imports.

In a monetary union with fixed exchange rates a loss in the relative price competitiveness of the deficit countries must be corrected via different dynamics of wage and price developments in the deficit and surplus countries. In the Euro area such a process is already underway. In recent years, unit labor costs and inflation in Germany rose stronger than in the peripheral countries. Wages and inflation in Germany increased whereas they decreased or they fell less in most peripheral countries. Slowly increasing prices or slightly falling prices in the peripheral countries are often criticized, but they contribute to the improvement of their relative price competitiveness and stimulate exports. As long as no self-reinforcing deflationary process is triggered, different wage and price dynamics rates are helpful in the adjustment process.

However, it is often claimed that a stronger wage and price growth in Germany is necessary, symmetrical to the efforts of the peripheral countries to limit wage and price growth. These claims are problematic:

(1) First, it must be noted that wage and price dynamics in most peripheral economies were excessive in the years before the crisis. Wage policy did not take account of the regime shift to fixed exchange rates and a common monetary policy. Figure 3 shows the sharp rise in unit labor costs in the crisis countries until the outbreak of the crisis in 2008, which was significantly higher than productivity growth. In contrast, wages in Germany increased very moderately. Therefore, the deficit countries had to adjust their wages downward after 2008, which of course is more painful and protracted than the alternative of a nominal depreciation (Darvas, 2012, pp. 8f.).

Figure 4: Unit labor costs in selected EMU economies (2000 = 100)



Data source: Eurostat (2014)

(2) After the crisis German wage costs have risen, and Germany contributes to the adjustment process. Any further wage increases, however, would worsen the relative price competitiveness of the German export sector against non-EMU economies, responsible for about two-thirds of German exports (compared with an EMU export share of one-third). A decline in German exports to third countries – due to a deterioration of relative price competitiveness - would not only have a negative effect on German economic growth, it would also weaken other EU and EMU economies, because they strongly benefit from the German export boom via supplying intermediate products and services. According to a new study of Prognos AG German enterprises imported intermediate products from EU member states for Euro 409 billion in 2012 and the German industry contributes to 3.5 million jobs in its EU partner economies due to its high import demand (vbw, 2014).

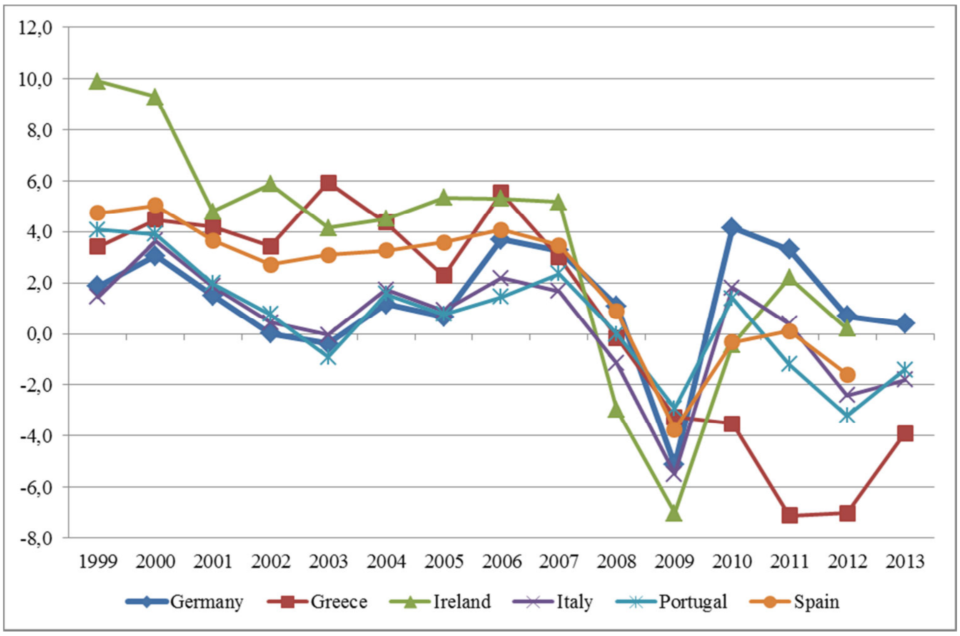
(3) Wages in Germany are no “dumping wages”. The level of nominal wages and unit labor costs in Germany in the industrial sector is still significantly higher than in most Euro area economies and other industrialized countries. The relative wage gap between Germany and the other EMU economies shrank in the first 10 years of EMU due to the slow increase of German wages and the catch-up process in the peripheral economies. In Germany, wages are also not set by the

government, but are the result of collective bargaining between employers' associations and trade unions. The low wage increases in Germany in the first ten years of EMU (from 1999 to 2008), and an increasing dispersion of wages according to labor productivity were necessary to strengthen investment and stimulate economic growth in Germany and to reduce unemployment. In addition, various labor market reforms of the German Federal Government in the first decade of the new century have contributed to economic growth and reduced the high German unemployment rate, so that Germany rose from the "sick man " of Europe to become a center of economic growth in Europe (Dustmann/Fitzenberger, 2014) .

5.2. Differences in economic growth and stimulation of domestic demand

The growing divergences in trade and current account balances within EMU in the years 1999 to 2007 can also be explained by differences in economic growth. Germany had at this time a significantly lower economic growth than the peripheral countries (Figure 5), causing strongly rising imports of these economies from Germany. Germany together with Italy recorded the lowest GDP growth rates in the Euro area for several years.

Figure 5: Real GDP growth of selected EMU economies



Data sources: Deutsche Bundesbank (2014b), OECD (2013)

Since 2010, Germany has strongly recovered from the recession of 2008/09 whereas most peripheral economies remained in recession or only slowly recovered. Therefore, the German trade and current account surplus against EMU economies decreased significantly. Imports of the peripheral countries shrank considerably, exports to Germany increased with the economic recovery of Germany.

It is often criticized that the described adjustment of trade balances is asymmetrical at the expense of the peripheral countries. They had to cut their imports due to a "forced austerity", while Germany has done little to increase its imports and thus stimulate exports of the peripheral countries (Krugman 2013a and 2013b). Instead, Germany should stimulate its domestic demand and government expenditure, and private investment of the corporate sector would have to be boosted (European Commission, 2014). An increasing private consumption and investment demand in Germany and an increase in the growth potential are certainly desirable. Both could also increase German imports. However, one must ask about the best way to reach these goals. Strong wage increases that go beyond productivity growth bear problems that were already discussed. German households can expand their spending only marginally without raising their indebtedness, because the tax burden in Germany is very high. A large part of income growth of German households is eaten up by rising expenditure on rents and additional property expenses. Rising energy costs due to the government induced turnaround in energy policy place an additional burden on private households. A declining savings rate and an increase in the rate of consumption, which are often claimed, are also problematic, given demographic trends in Germany.

The EU Commission has recommended that the German government should primarily stimulate private and public investment in Germany to increase the growth potential of the German economy with the aim to stimulate German imports (European Commission, 2014). In the past decade private investment in Germany was relatively muted. A rise in private investment and an increase in the production potential in Germany appear desirable. Due to the crisis, German capital outflows into the peripheral economies have dried up. In Germany business investment in buildings, machinery and other equipment increased significantly in 2010 and 2011. However, this process was interrupted by new uncertainties about economic perspectives abroad and the still smoldering debt crisis in many EMU economies (Deutsche Bundesbank, 2014, p. 56). It is difficult to control private investment via government economic policy. Private investment must pay a dividend for investors and needs a safe and predictable environment.

A targeted increase in public investment to influence the current account balance is problematic, especially if additional government expenditures cannot be financed without raising taxes (Gros/Busse, 2013, p. 5). Germany has successfully reduced its annual government deficits in recent years. Nevertheless, the outstanding government debt of close to 80% in relation to GDP is still high and well above the Maastricht ceiling of 60 %. It would give the wrong signal, especially with regard to the reformed Stability and Growth Pact, if Germany would not be able to limit its government debt even in a period of economic growth and low unemployment. A further increase of public debt should be avoided, given the demographic pressures and the national budgetary rules (Deutsche Bundesbank, 2014, p. 54ff.). In addition, government spending and construction investment of the public sector would have little effects on the German current account balance due to their low import content. In 2013, for example, the income of foreign companies from building projects in Germany (after deducting the expenses for German subcontractors) amounted to only 1 ¼ billion euros, which is less than 1% of the German current account surplus (Deutsche Bundesbank, 2014, p. 57).

5.3. Product range and globalization strategy

The export success and the resulting trade surpluses of Germany are also the result of the product mix and the quality of German export goods as well as a successful globalization strategy of German enterprises (Deutsche Bundesbank, 2011, p. 30 ff.). In many industry sectors German enterprises are world market leaders, particularly in the automotive, medical and pharmaceutical industry, as well as for machinery and equipment. In addition, Germany has a strong small and medium-sized enterprise (SME) sector, occupying a leading position on world markets in many niches (Deutsche Bundesbank, 2011, p. 31). Due to the strong export orientation and foreign direct investment abroad, for sales and marketing activities, as well as for the production and procurement, German companies were able to hold their market shares. This enabled German enterprises in many cases to keep final assembly in Germany, strengthening the German industry base and contributing to the export success of Germany. In contrast, the importance of the secondary (industry) sector in many other Euro area countries declined in recent years, partly due to the fact that domestic companies completely shifted their production abroad (Deutsche

Bundesbank, 2011, p. 31 f.). This is also reflected in the development of the export to GDP ratio of the German economy which is significantly higher than the degree of openness in trade of Italy, France and Spain, the largest economies in the Eurozone after Germany.[4] One cannot attribute the German export success to unfair advantages. The German government and its economic policy welcomed the globalization efforts of German companies. However, German enterprises expanded without undue subsidies or other assistance.[5]

Table 2 below is showing the German trade surplus in total and against EMU economies, and the trade surplus resulting only from the sale of vehicles and vehicle parts. In 2008, the surplus in trade of vehicles and vehicle parts accounted for nearly one third (Euro 29.2 billion) of the total surplus in this sector against EMU economies. In 2013, more than half of the total German trade surplus of Euro 199 billion is due to a surplus in trade of vehicles and vehicle parts (Euro 110 billion).

Table 2: German trade balance and trade in vehicles and parts

	Trade balance against EMU (17)		Overall trade balance	
	Trade balance	Vehicles and -parts	Trade balance	vehicles and parts
2008	106,6	29,2	178,3	94,0
2009	85,4	17,1	138,7	58,3
2010	88,4	20,5	154,9	
2011	82,8	21,1	158,7	103,6
2012	68,6	13,0	189,8	108,6
2013	59,4	11,1	198,9	109,6

Data source: Statistisches Bundesamt (2014)

In the automotive industry there is a fierce international competition and high wages are paid. However, Germany was able to secure a large market share and a sustained export success due to the high quality of its products and being a market leader in the premium sector area. Does

[4] In 2012, the export share of Germany (in terms of exports of goods and services, relative to GDP) was 52%, compared with values of 27% for France, 30% for Italy and 33% for Spain. This is also noteworthy because these economies are much smaller than the German economy. Usually, the export quota of larger countries is less than the export quotas of smaller countries. In 2012, the export share of the United States, for example, was only 14%, whereas the quota for the Netherlands was 88% (World Bank, 2014).

[5] For the development of German outward FDI and its policy context see Jost (2012).

Germany export its cars at the expense of its trading partners or due to unfair competition advantages? Those who criticize the high exports of Germany could argue for an increase in prices. Such a price increase would, however, dampen the exports to other regions of the world, with negative consequences for the foreign suppliers of intermediate products which German car producers import from countries like Austria, Slovakia, the Czech Republic and others. Perhaps the single most effective measure against large German car exports would be a ban on car advertising ("driving fast German cars can affect your health") or the banishment of German sports cars from Hollywood movies. However, such measures do not conform to international trade rules. And German cars are driven with excitement in the capitals of Brussels and Washington, from which most complaints about the large German trade surplus comes from.

6. Summary

For many years Germany has had large trade and current account surpluses. Against EMU economies, these surpluses have halved in recent years. Against third countries the German current account surplus continued to grow. The overall current account surplus is mainly due to a large trade surplus, but it also reflects an increase in net factor income and a swing of the chronic deficit of the balance in services into a surplus. It also reflects the relatively high savings rate in Germany and low investments, causing net capital exports. For an aging society like the German such developments are quite reasonable in an inter-temporal perspective if the accumulated net foreign assets, due to sustained current account surpluses, are not associated with excessive risks. It is expected that the German current account surplus will remain relatively large in future years. In the longer term, however, the surplus will shrink due to demographic trends and increasing domestic investment. An enforced reduction of the current account surplus via government controlled policy and increased government expenditures cannot be recommended and is associated with high risks.

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