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The Case In Support of Current Account Surpluses

We will be defending the German perspective, arguing that current account surpluses are indeed beneficial. For the sake of this paper, current account surpluses are defined as a positive difference between a nation's level of savings and level of investment, indicating that the nation is a net lender to other countries around the world.

A Theoretical Defense of Current Account Surpluses

When a country has a current account surplus, its economy is exporting more goods than it is importing. With a current account surplus, a country has extra foreign exchange that they can use to invest in other countries (Germany, for example is a large foreign investor). Current account surpluses are beneficial for a country's economy because they result in increased employment rates. High levels of exports serve to increase employment rates because there are more jobs needed to fuel this export based economy. Furthermore, low import spending translates into higher consumer spending on domestic goods rather than on foreign goods. Ultimately, a current account surplus is indicative of an improvement in competitiveness and therefore a current account surplus is a positive attribute for a country.

The German Case Study

In recent years, the German economy has shown remarkable strides, becoming a beacon of success in an otherwise tumultuous European landscape. German companies are some of the most competitive in Europe, and Germany has been exporting many of its goods and investments

abroad, resulting in a large current account surplus. Just last year, “Germany ran up a current account surplus of almost \$270 billion in 2013, which amounts to more than 7% of economic output” (Reuters). This has worked quite well for Germany, who has exhibited impressively low levels of unemployment, hovering just below 5%. (See graph)

Yet, Germany is not the only one benefitting. According to Peter Wittig, the German Ambassador to the United States, “imports, mainly from our European partners, account for 40 cents of every euro worth of German exports” (Triblive). Thus, attacking a sector of the European economy that is producing wealth for the EU as a whole appears to be quite counterproductive. Additionally, a majority of the German population appear to support the current economic surplus. While precise data for public support on having a surplus was difficult to find, a somewhat tangential poll found that 54% of German people approve of having a balanced budget rule which aims to avoid continuous deficits (Wall Street Journal). In effect, having the EU force Germany to spend more to drive domestic consumption, when taken to its furthest conclusion, would be anti-democratic. Indeed, if the rest of the EU’s desires were met, and Germany began to spend more to drive domestic consumption, it could potentially go against Germany’s Balanced Budget Amendment to its constitution or the “*Schuldenbremse*,” which was enacted in 2009.

The Case Against Current Account Surpluses

Critics of Germany’s current account surplus argue that correcting Germany’s imbalance (i.e its large current account surplus) would be beneficial to the whole Euro-zone. Indeed, it is an export-led economy, meaning it relies on outside demand and consumption rather than on

internal demand. Additionally, critics say Germany would contribute more to global demand if it stimulated German consumption and imported more, exporting less and reducing its current account surplus. Specifically, Keynesians believe that Germany could boost other countries' economy through larger fiscal deficit.

However, demand spillover from Germany to other troubled European economies might not be as automatic as one thinks, as Germany trades not only with European countries but with the entire world. Even if Germany decided to lower its exports, it would only import from the other struggling European countries if they in turn increased their competitiveness. Jens Weidmann, president of the Bundesbank, noted that crisis-hit eurozone countries would not profit much from more expansive fiscal policy in Germany, stating that that "The positive knock-on effects would be limited" (Financial Times).

Moreover, changing Germany's model would likely result in the destabilization of the entire German economy. Proposals such as rent controls and pension increases could put Germany's economic progress over the past decade at risk. Germany's powerful position in the world in terms of exports gives credibility to the whole of the Euro-zone. If investors doubted Germany's financial strength, it would make borrowing on financial markets even more difficult for other European countries. Thus, any disturbance to the German economic model could have long term economic repercussions for the EU as the whole.

From a political standpoint, punishing Germany for its current account surplus would be vastly counterproductive. EU policy makers are currently encouraging eurozone countries to undertake painful reforms to become more competitive and run a current account surplus, rather than a deficit. Therefore, it would be paradoxical to sanction Germany for successfully executing

these desirable practices. Instead, Germany ought to act as a symbol for other EU countries following suit.

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