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Imaginaries of German Economic Success: Is the Current Model Sustainable?

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Be careful what you wish for – You might get it!

Not so long ago, the British weekly newspaper *The Economist* (2013) conjured up the imaginary of Germany as a "reluctant hegemon," calling on the country to take a more decisive political leadership role in Europe. In a similar vein, Martin Wolf argued in the *Financial Times* (10.12.2014) that Germany "is too powerful and too central to avoid its new destiny. Upon it rests the future of a politically and economic fragile Europe. The time of thinking small is past. Germany is now a big country with big responsibilities. It will be judged by how it lives up to them." Imaginaries can be thought of as powerful ideational and material roadmaps in so far as they give meaning and shape to the (European) economic field (Sum/Jessop 2015). By invoking the imaginary of a *reluctant hegemon*, actors construct a narrative about Germany and use it to change its performativity within and across European organizations and institutions. After escaping the previous imaginary of the *sick man of Europe* in the 1990s, Germany is now seen as the most successful economy in the Eurozone (Scharpf 2015). This imaginary reflects the yearning for a hegemon that can provide foundational principles and overarching meaning in times of economic, political, and identity crises.

Measured against other EU member states, Germany's recent economic achievements are quite impressive. It has outperformed the Eurozone average growth rate since the second quarter of 2010. Recently released data shows that Germany's GDP increased by 1.7 percent in 2015, the best performance since 2011 (Tagesschau, 14.1.2016). Germany now has the strongest as well as the biggest economy in Europe with a 4.5 percent unemployment rate in the Q3 2015, leaving other member states of the Eurozone countries far behind with an average unemployment rate of over 10% (except Austria). While many critics accuse Germany of contributing to global macroeconomic imbalances, it continues as the export nation *par excellence*. According to the International Monetary Fund's World Economic Outlook Database, German exports accounted for about 40.6 percent of total economic output in 2014.

Whether Germany is a European hegemon and whether other European member states actually want Germany to perform this role (what has become known as the *Germanification of Europe*) remains a much-contested issue. According to the theory of hegemonic stability in the discipline of international relations, hegemonic powers are essential to provide the norms and principles needed to resolve international coordination problems (Kindleberger 1973). In calling for an altruistic hegemon it is nevertheless worth remembering that hegemons seldom act against their own self-interests (Ruggie 1998) and that they often do so to advance their objectives against other agents in a tactical manner (Lagna 2015). This European question regarding the role and desirability of a hegemon is significantly connected to Germany's unique discourse around its deficit fetishism (Stiglitz 2016).

In terms of fiscal prudence, CDU Finance Minister Wolfgang Schäuble has achieved a zero deficit target (*die schwarze Null*) two years in a row (2014 and 2015), which is all the more remarkable given that this has not happened since 1969. Recently released figures show that the German federal government has achieved a budgetary surplus of €12.1 billion for 2015, which is double the amount forecast in November of last year (n-tv, 13.1.2016). Symbolically achieving this target conjures up the imaginary of German fiscal responsibility versus the imaginary of Southern fiscal profligacy, implying that Southern Europe should change its socio-cultural norms and conventions to become more like Germany. As was demonstrated during the Eurozone debt crisis, Germany is the largest creditor country in the Eurozone and thus wields enormous structural and asymmetrical power against debtor countries (Dyson 2010). In other words, Germany's strong tradition of deficit fetishism functions as an ideational and material roadmap to advance its objectives to institutionalize restrictive fiscal norms across the EU against a Keynesian focus on boosting aggregate demand.

However, Germany's strength in creating a discursive environment of fiscal norm-setting must be seen against the background of the weakness of other European member states. The French-German axis and its traditional division between the *Grand Nation* acting as the political player and Germany as the economic leader has given rise to German domination of both fields. Recognizing the shifting power constellation, both Nicolas Sarkozy, former French conservative president, and François Holland, the current socialist president, have accepted this subordinate role – presumably a necessary concession for remaining at the European helm of power. Outside both the Eurozone and the Schengen agreement, Britain is simultaneously distracted with its internal debate on whether to stay in the European Union, and it is a significant fact that it has mostly been uninvolved in the Ukrainian crisis. As a result, Angela Merkel has strengthened her global geopolitical position. Speaking fluent Russian, she has become the most important interloper between the superpowers for finding ways to resolve the Ukrainian conflict. Her very presence demonstrated this during the 2015 Minsk negotiations in Belarus between Russia, Ukraine, Germany and France. Moreover, she has consecutively been cited as one of the most powerful political European leaders by Forbes business magazine. In addition, *Time* magazine has chosen her as the 2015 *Person of the Year* for her engagement in resolving the Greek crisis, her moral leadership in the refugee crisis, her commitment to resolving the crisis in the Ukraine, and her resolute solidarity with France in response to the fatal terrorist attacks in Paris during 2015.

This positive German political and economic imaginary was challenged, however, by the Eurozone sovereign debt crisis. Deep ruptures emerged between the northern creditor countries (Germany, Finland, Austria and the

Netherlands) and the economically weaker and indebted southern periphery. The standoff between an economically powerful Germany and the economically weaker peripheral countries has been further aggravated by a new East-West refugee rift. Angela Merkel is hailed by many for her moral leadership in opening the German borders, for disregarding the Dublin agreement (the rule that refugees have to seek asylum in countries of their entry point), and for her response to the closure of the Hungarian borders to incoming refugees from the Balkan route in the summer of 2015. At the same time, many Eastern European member states refuse to accept the refugee quotas negotiated by the EU-Commission to settle within their borders. This present rift between EU member states from the East and West is not only a crisis on humanitarian grounds; it is also a huge challenge to the survival of the European Union itself. Even the President of the EU Parliament, Martin Schulz, has voiced his concern that the disintegration of Europe is a real possibility (*SpiegelOnline* 25.12.2015).

Germany and the EU are thus faced with manifold and multifaceted problems. In what follows, this essay aims to explain the following: the German success story in the midst of such regional and global turbulences; the issue of whether the German model can be replicated by other member states; and whether this model is sustainable in both the short and long terms. In order to explicate these questions, two different imaginaries regarding the German economic success story are presented. One relies on a domestic explanation citing the structural reforms of Chancellor Gerhard Schröder (SPD) and the subsequent competitiveness of Germany's export industry. The other Post-Keynesian approach argues that Germany's economic advantages are the result of the undervalued single European currency, which has provided a competitive advantage to German export goods at the expense of peripheral countries. It is important to examine both narratives, since German economic and political elites are using the domestic explanation as a model for Europe's highly indebted peripheral countries to restructure (deregulate and liberalize) their economies. However, if we follow the Post-Keynesian model, then the adjustment for balanced current accounts in the Eurozone lies within Germany itself. Specifically, the focus on exports goes hand in hand with Germany's underinvestment in domestic physical and social infrastructure. If we thus inquire into whether the German export model is sustainable, the Post-Keynesian model will deny such a positive scenario, precisely because German export surpluses presuppose that other countries finance these through deficit borrowing. This is simply the result of a closed economy in which surpluses in some countries have to be balanced with deficits in others. However, the influx of 1.1 million refugees during 2015 alone could alter the German export-scenario. In fact, the outlays for additional housing and schools, teachers, policy officers, border guards, translators, administrative personnel, and the announced increase in military spending will result in higher public fiscal expenditures and thus will shift the export focus to a more balanced domestic infrastructural investment. That this is not just "wishful thinking" was recently emphasized by the German Finance Minister, Wolfgang Schäuble who stated that the integration of refugees takes priority over the zero deficit target (*schwarze Null*). Inadvertently, then, the refugee crisis may provide Germany with the incentive to encourage domestic investment at a time when the export markets in emerging economies are declining due to global economic weaknesses.

TWO IMAGINARIES OF GERMAN ECONOMIC SUCCESS: THE NEW GERMAN MODEL VERSUS THE MACROECONOMIC EUROPEAN MONETARY REGIME (EMU)

In the comparative economic literature on the varieties of capitalism approach (VoC), Hall and Soskice (2001) have characterized the German economy as the archetypical *coordinated market economy* against the *liberal market economy* of the Anglo-Saxon type. As such, the authors dispute the assumption that economic globalization will lead to a convergence along the lines of Anglo-American capitalism. Rather, they focus on national institutional differences, which explain the respective economic policies and performances. In the coordinated type of market economies, non-market relations to coordinate economic activities play a more important role than the competitive market arrangements in liberal market economies. However, this *coordinated model* of German capitalism has undergone a dramatic transformation under Chancellor Gerhard Schröder (SPD) in the 1990s with the introduction of *Agenda 2010*, which liberalized the highly regulated labor and social welfare markets. This transformation, according to the arguments of many political and economic elites, has helped Germany to escape the earlier imaginary of *the sick man of Europe* and to prepare Germany for the global challenges of the 21st century.

In contrast to this domestic explanation, Post-Keynesian macroeconomists (Stockhammer/Köhler 2015; Hein et. al., 2015; Flassbeck/Lapavitsas 2015) argue that finance-dominated capitalism (or financialization) has given rise to two complementary European growth models: a 'debt-driven growth' model in the Southern periphery and an 'export-driven growth' model in Germany (also in Austria, the Netherlands, and to a lesser extent in Finland). As such, some countries are running huge trade surpluses (Germany, Austria, the Netherlands) while many others accumulate deficits, which result from particular currency and monetary imbalances, themselves created through the European Economic and Monetary Union (EMU). These two models are highly asymmetric in that the surplus countries wield power over the deficit countries.

The Post-Keynesian macroeconomic approach provides an alternative to the domestic structural explanation in that it illustrates the missing link between the domestic model and the regional monetary environment (Scharpf 2015). Namely, the policy preferences of economic actors are shaped by their situation in the international economy. In order to explain the German economic success, we thus need to have some understanding of the impact that international (in this case regional) monetary regimes and domestic economic situations have upon policy preferences. This complimentary *vertical* relationship between the domestic and the international political (monetary) economy helps us to understand how the system of a highly competitive export economy was able to emerge as a result of the introduction of the single Eurozone currency (Jessop 2014; Scharpf 2015; Gourevitch 1978).

THE TRANSFORMATION OF THE GERMAN MODEL

Most mainstream German economists and members of the government extoll the virtues of the *New German model* based on the narrative of "living within one's means," which is rooted in the imaginary of the *Swabian housewife*. These ideas of fiscal frugality are a legacy of the traditional ordoliberal school hailing from the 1930s, which sees the culprit of the present Eurozone crisis in the profligacy of peripheral countries whose governments did not abide by a system of *ordo* (*Ordnungspolitik*) rule-based fiscal and monetary prudence (Young 2015; 2014). The daily German *Bild-Zeitung* has extolled this deficit fetishism by targeting and constructing an imaginary of "the lazy Greeks" versus the "hard-working Germans." Such imaginaries laid the discursive foundation for the normatively tinged discussions about indebted nations being guilty (*schuldig*) for their own self-inflicted misery.

The re-emerging discourses and imaginaries of fiscal rectitude and of a disciplinary rule-based system followed upon the dismal economic performance of Germany in the 1990s, with its slow growth and its high unemployment. As is well known, this earned Germany the title of the sick man of Europe. The incoming Gerhard Schröder SPD/Green coalition government (1998–2005) introduced *Agenda 2010* with its goal of liberalizing the highly regulated labor and social welfare markets. To strengthen Germany's export-led growth model, the coalition government increased wage-restraints to boost competitiveness and reformed the social insurance system by lowering the social wage. This made part-time work more feasible and thus vastly expanded a low-paid, precarious secondary labor market (Scharpf 2015). As a result, wage inequality and workforce flexibility increased, greatly benefitting the German export-oriented industries (Streeck 2015).

The structural changes of the Red-Green coalition did not fully transform the model of the German coordinated market economy (Hall/Soskice 2001) into a "liberal market economy" along the lines of Anglo-Saxon shareholder capitalism. But it did liberalize and introduce greater flexibility into German stakeholder capitalism. The erosion of collective bargaining agreements, the liberalization of capital markets, the introduction of shareholder value into corporate governance, and the resulting real wage suppression – all of these changes increased German competitiveness against other Eurozone peripheral countries, and thus greatly enhanced the export-led strategy of the German growth model. But they also came with high costs for Chancellor Schröder and the SPD. The introduction of this neoliberal reform agenda cost Gerhard Schröder the 2005 election to the CDU/CSU. It also led to a split within the SPD: the left wing of the SPD joined forces with remnants of the former East German socialist party to form a united German left wing party, *Die Linke*.

This domestically focused narrative is not wrong *per se*. Indeed, it is part of an economic imaginary that is equally shared by macroeconomic Post-Keynesian economists. However, the post-Keynesians argue that this focus on the domestic arena is insufficient as an explanation for the present German economic success story. From this perspective, while the export-driven model is celebrated as the result of German technical prowess and know-how, this growth model cannot be properly understood in isolation. Exports need markets, and these markets were found in the European periphery. They were financed by large German capital outflows to pay for the imports, and in this process the peripheral countries amassed huge amounts of debt (Sinn 2010). While it is undisputed that the *Agenda 2010* measure did introduce greater competitiveness through wage restraints, the domestic liberalization and deregulation processes alone do not explain Germany's economic triumphs. Equally important was the introduction of the European Economic and Monetary System (EMU) and its new monetary and currency regime (the Euro), which made the German export model (with high employment) so competitive against the more demand-led growth of the peripheral Eurozone countries (Scharpf 2015; Stockhammer/Köhler 2015; Hein 2015).

Challenging the imaginary and narrative of a domestically driven economic success story is all the more important since German government leaders and mainstream economists present themselves as moral taskmasters and hold up the imaginary of the "hard" road Germany travelled to reach the present economic triumphs. German political leaders never tire of claiming that the right medicine for the economically malaised periphery is the formula of imposing stringent fiscal rules, lowering taxes, deregulating the labor market, reducing social spending, and privatizing state properties and public goods. But this formula fails to recognize the importance of the Eurozone currency regime for locking in undervalued exchange rates to the advantage of German exports (Cameron 2012; Scharpf 2015).

TWO COMPLIMENTARY GROWTH MODELS: EXPORT-DRIVEN AND DEBT-DRIVEN GROWTH

The introduction of the Euro resulted in two complimentary growth models: one that relied on debt to finance consumption spending ('debt-led growth') in the Eurozone periphery; or the other, which relied on export surpluses ('export-led growth'), mostly in Germany and Northern Eurozone countries. However, as the Eurozone sovereign debt crisis has made clear, the EMU cannot accommodate two concurrent economic models – one geared toward savings and exports, as is the case in northern Europe, and the other relying on borrowing and public expenditures, as is the case in southern periphery countries (Streeck 2015). The conflict of these two models is not restricted to the Eurozone; instead, it was (and still is) a worldwide phenomenon that demonstrated its dysfunctionality once the financial crisis and the sovereign debt crisis started to wreck havoc worldwide. Contrary to the Fordist period of mass production and mass consumption up until the 1970s, these two growth models are not driven by business investment leading to a profit-led growth regime (Stockhammer and Köhler 2015). Instead, Anglo-Saxon countries developed a debt-driven growth model while China's surpluses financed the US-deficits by either buying US Treasury Bills or mortgage backed securities (MBS) to facilitate strong consumption demand, and a residential housing boom, which led to the financial crash starting in 2007. On the opposite side, Germany, China, Japan and some Middle Eastern oil exporters engaged in an export driven growth model, in which domestic growth is discouraged at the expense of exports. In the Eurozone, the two regimes had equally devastating effects in that cheap credits increased household debts as a percentage of GDP and a real estate investment bubble emerged in Spain, Ireland, and to a lesser extent in Portugal, as well as large public debt accumulation in Greece and Cyprus.

The surge in credit was made possible by the creation of a single European financial market. Once member states joined the Eurozone, countries could borrow on the international capital markets at the same interest rates irrespective of their economic performance. Indeed, looking back to the pre-Euro period in 1998, Greece had to pay an average 8% interest rate. But starting with their membership in the Eurozone, Greece could borrow money as cheaply as Germany and even more cheaply in terms of the real interest rate, since inflation rates were higher than in Germany. This created a massive boost to credit financed domestic demand in the peripheral countries (Young/Semmler 2011).

Initially, the introduction of the Euro had a negative effect on Germany. Entering the EMU at a high exchange rate, the monetary policy of the ECB was too restrictive for low-inflation Germany. In addition, during the 1990s the high cost of German unification caused low economic growth and high unemployment. The strongly unionized West German workforce suffered further from the influx of a highly skilled East German workforce, which added strong wage competition. To avoid large job losses, the industrial unions agreed to wage restraints below the existing collective bargaining agreements. As a result, unit labor costs in manufacturing did not only stagnate but actually declined by 9% between 1999 and 2008 (Bofinger 2015). The wage moderation had an immediate effect on Germany's price competitiveness and on its exports to the Southern peripheral countries. In effect, the economic weakness of these countries helped to lower the real change rate while increasing the German current account balance. As Scharpf has argued, "(T)he monetary union allowed a dramatic fall of the real effective exchange rate after 2001 which then caused a steeper rise of German export surpluses than at any time since the end of the Second World War" (2015: 97).

From the perspective of currency undervaluation, German export performance and the sustained pressure on nominal wage increases have provided German exporters with the competitive advantage to dominate trade and capital flows within the Eurozone. At the same time, the wage moderation led to a declining real domestic demand in Germany. In the period between 2000 and 2005, the average annual growth rate of domestic demand declined to -0.1 percent, but in the rest of the Eurozone the growth rate of domestic demand amounted to 3.2 percent in the first period and 2.0 percent in the second. The weak domestic demand in Germany implied for the rest of the Eurozone a strong deceleration of their exports for goods and services to Germany. This was different before 1999 when Germany's imports from Eurozone countries and its exports were growing in parallel (Bofinger 2015). Given the overall weakness of the Eurozone economies, the strength of the German exports did not result in the much-needed corrective effect of increasing the Eurozone exchange rate, as would have been the case during the DM-period (Scharpf 2015; Cameron 2012).

Germany's export volume grew twice as fast as that of other members in the Eurozone between 1996 and 2008, while the domestic demand of German private households declined 1.5% per year against the rest of the Eurozone members. Labor income moved at an almost identical pace to productivity, while in peripheral countries nominal labor costs rose faster than productivity, with Greece in the lead. The growth rate in unit labor costs from 2000-2008 for Southern European countries increased by more than 24% compared to 3% in Germany. As a result, peripheral countries had been losing competitiveness relative to Germany and showed large current account deficits, which were mirrored by current account surpluses in the North. Because the German current account turned into a surplus, Germany experienced a huge net outflow of capital to peripheral countries, financing the housing bubble and rising household debt (Stockhammer/Köhler 2015). This led to an uneven playing field for peripheral countries and resulted in two different types of boom-bust cycles in the Eurozone: first, Germany/Austria with low unit labor costs, high technological innovations, rising export surpluses, capital exports, and low consumption growth; second, in the peripheral countries, wages rose faster than productivity and there was a visible consumption boom largely based on cheap borrowing on the capital markets, which translated into current account deficits for these countries. Since the Eurozone is a confederation of independent states, one member state's current account surplus has to be compensated for by a deficit run by another country, or expressed differently, if countries benefit from undervalued real exchange rates (Germany), while others suffer from overvalued real exchange rates (Scharpf 2015). This is particularly true in the Eurozone where there is no mechanism for tax and transfer policies to provide for regional equalization and stability as is the case in federal countries like the United States (Semmler/Young 2011).

The asymmetric imbalances in the Eurozone between those countries with a current account surplus and those with a deficit increased significantly before the financial crisis of 2007. It then decreased during the sovereign debt crisis, only to reach a German all-time high surplus of 8% of gross domestic product in 2015. This is, of course, the opposite of what was expected. For it was expected that the introduction of the Euro would lead to a convergence of the economic competitiveness of all Eurozone countries. Yet exactly the opposite happened, and there seems little incentive to change the fixed exchange rate regime that so overwhelmingly favors Germany's export-led growth model.

IS THE GERMAN EXPORT-LED GROWTH MODEL SUSTAINABLE?

Given that the success of the German export-growth model is the result of an undervalued exchange rate, and much less the result of structural reforms implemented via the *Agenda 2010,* its long-term sustainability is in serious doubt. The outlook for Germany's short-term sustainability is less pessimistic, since any shocks take generally about two years to filter through to industrial plant production. Germany continues to benefit from its highly competitive manufacturing sector, having carved out a technological niche at the higher end of a rather price-inelastic product market. Germany was also very quick to substitute the declining Eurozone peripheral export markets with new markets in the United States, in the Middle East, and particularly in China. Accompanying large German business delegations, Angela Merkel's frequent visits to China (and now also India and Brazil) has put these countries on the map as important buyers of alternative energy and green products. The introduction of *quantitative easing* (QE) by the Central European Bank has also provided a huge bonanza for German competitiveness, since it lowered the Euro exchange rate against the US dollar by about 20% since 2014. Germany also benefits from the very low oil price. However, it does not reap the full benefit of the price decline, since oil transactions on the international markets are calculated in US dollars.

On the negative side, German exports consist mostly of high-tech machinery exports, factory plants, automobiles, and pharmaceuticals. At the moment, it is difficult to predict the fallout of the Volkswagen emission scandal, but it could be substantial if legal actions in the US and Germany lead to convictions and heavy fines. Germany's over-reliance on manufacturing is problematic since the country is less competitive in areas of financial services and the cultural and performative arts. Most importantly, Germany lacks the entrepreneurship and start-up culture in digital innovations and services demonstrated by Facebook, Amazon, Google, Yahoo, Twitter, Airbnb, and Uber. Virtually all these digital innovations come from the United States, which means that Germany is cutoff from these innovative branches of digital development. This has much to do with the bureaucratized and underfunded university system where the structure of the curriculum prevents flexibility, entrepreneurship, and innovation. The result is a *brain-drain*, particularly to Anglo-Saxon countries that often provide lucrative scholarships for German graduates wishing to escape the bureaucratic educational environment.

But it is geopolitics that provides the greatest challenge to Germany's over-reliance on exports. European sanctions imposed on Russia for annexing the Crimea and destabilizing the Eastern Ukraine have affected many smaller and middle-sized companies in the Southern German region. Just as Germany is turning to new export markets in the Middle East, the entire region is exploding in warfare. Neither is the outlook very bright for Chinese growth and other emerging economies. Chinese financial volatility in the first weeks of the New Year of 2016 sent shock waves through the developed countries' stock markets. Christine Lagarde, the head of the International Monetary Fund, has warned that the emerging economies are confronting a 'new reality.' Both the US Federal Reserve's shift towards ending its monetary easing and the subsequent rise of the US dollar value will have negative repercussions for many emerging countries. This is not a one-way street. A slow-down in emerging markets will have negative impacts on the weak growth in advanced countries. While the Chinese shift towards a slower growth can be seen as an important step for sustainable growth in the long run, the short-run impact on global trade and commodity prices can be quite severe, even triggering financial turmoil (FT 13.1.2016: 4). These global developments are not good news for Germany's export sector. A glimmer of hope may be provided by the Iranian nuclear deal and the repeal of economic sanctions in 2016. The German export industry is anticipating substantial business opportunities and new markets to replace the sanctions-worn Iranian industrial structure. German estimates range from an increase to €10 billion within the next five years from a sanction-induced low of €2.1 billion in 2013, with an expected creation of 100,000 jobs (RTL-news, 17.1.2016).

The largest fault line of this export conundrum lies in Germany's imaginary of deficit fetishism. The balanced budget policy goal is highly counterproductive given the global economy's *secular stagnation* (Larry Summers) or its *savings glut* (Ben Bernanke); both of these terms suggest a slow growth phase due to insufficient global aggregate demand. According to Stiglitz, "countries like Germany that consistently maintain external surpluses are contributing significantly to the key problems of insufficient global demand" (Stiglitz 2015). In a recent *ZeitOnline* article, Heiner Flassbeck admonished the Germans to 'stop dreaming!' (26.11.2015). The German dream to spend only what the state takes in is a nightmare for everyone else. Yet Wolfgang Schäuble's zero deficit target (*schwarze Null)* enjoys support from the Social Democratic leadership, mainstream economists, the media, and it is overwhelmingly backed by the German public. Nobody was surprised when both houses of the German federal parliament passed the debt brake with a huge majority. The upshot is that these restrictive deficit targets will prevent the use of fiscal policy for much needed investment in infrastructure, technology, education, the environment, and social housing (Truger 2013).

This imaginary of deficit fetishism implies that Germans are saving champions. In fact, the household saving rates of about 17% in 2015 Q3 is the highest in Europe, above France, the Eurozone, Italy and Spain (FT tv15.1.2016: 1). Hidden in this saving euphoria lies the unspoken truth that savers need others to incur debts. Since the state, private households and large corporations have amassed huge amounts of savings, Germany needs others beyond its border to spend. Flassbeck estimates that Germany needs €250 billion in new foreign debt for 2015 in order to achieve its zero deficit target at a time of low economic growth. It also makes little sense to put savings in a banking account at a time of zero interest rates, effectively withdrawing the much-needed savings from the economic cycle (Flassbeck 26.11.2015).

Rather than using its economic strength to shift to an economy driven by domestic demand and thus acting as locomotive for the near-stagnating EU, Germany (along with other Nordic countries) has tightened the fiscal policy across the entire EU. The building blocks for this rule-based system consist of the Fiscal Pact with its constitutionally mandated debt brake. To tighten the Stability and Growth Pact, greater macroeconomic surveillance was enacted with the Six Pack, while the Two Pack provides common provisions for monitoring and assessing draft budgetary plans and for ensuring the correction of excessive deficits of the member states in the Euro area. Given that German political leaders and the mainstream economic profession continue to proclaim that reducing the debt rather than investing in infrastructure is the answer to the Eurozone imbalances, any kind of fiscal demand stimulus does not seem to be on the horizon. What is missing is an informed public discussion on how to counter the deficit of aggregate demand. Instead of stigmatizing Keynesians as outdated and ill-informed, a public discussion of these matters would itself be a sign of progress. However, all is not lost. The large influx of refugees may just provide the (unintended) incentive to force Germany to change its export-oriented growth model and focus more on domestic investment expenditures.

CONCLUSION: THE REFUGEE CRISIS AS AN ECONOMIC OPPORTUNITY FOR GERMANY

While Angela Merkel was hailed for her human gesture of welcoming the refugees from Syria and Iraq during the summer of 2015 and defended her action against her critics by maintaining that if she has to apologize for this act of humanity, then she would not call this (Germany) her country anymore, the crisis has turned into a political nightmare for the Chancellor. Her often repeated, *Wir können das schaffen* (we can handle this) is becoming less clear with the arrival of 1.1 million refugees by the end of last year. The turning point came with the New Years' Eve mass of sexual assaults on women in Cologne and 12 other German cities. In the meantime, some 700 complaints have been received by the police in Cologne alone. The perpetrators were supposedly young men from North Africa and Maghreb states. However, there is still no exact information on their immigrant backgrounds, or whether any recent refugees from Syria were among the perpetrators.

The right wing political parties, such as Germany's *Alternative für Deutschland* (AfD) and France's *Front National*, have greatly contributed to a mass hysteria about the danger of letting large numbers of single men enter Europe. The political danger for Angela Merkel does not only come from the right wing fringe. Members of her own party as well as Horst Seehofer, governor of Bavaria and party leader of the Christian Social Union (CSU), demand a limit of 200,000 refugees a year, and urge the protection of Bavaria's borders against refugees entering the country from Austria without papers. He has threatened to call on the German Constitutional Court to arbitrate in the matter of whether Angela Merkel has violated federal law by failing to protect German borders. It is evident that this problem is not just a German task; it is part of the EU's duty to protect the outer borders in order to safeguard the Schengen agreement (border free) within the European Union. However, the solidarity of other EU member states is surely wanting in this regard. Yet the single European currency depends on free movement (Schengen Agreement) within the European Union. As Jean-Claude Juncker, the President of the European Commission, warned, the single European currency will fail without the Schengen Agreement.

Aside from these geopolitical and security concerns, Germany is confronted with a heated debate about the economic benefits and costs of integrating refugees. Even prior to the refugee influx, discussions in Germany revolved around the shortage of skilled labor and the general gloomy demographic outlook. Many business elites saw young refugees as a means of counteracting the skill shortage facing Germany in the coming years. In this context, a study by the *Bertelsmann-Stiftung* provides support for the economic net benefits of refugees. However, the president of the Institute for Economic Research, Hans-Werner Sinn rejects this argument. He claims that for every migrant there is an additional net cost of €1,800 of what the migrant contributes, since most refugees do not have the necessary qualifications and thus will become a burden on the German *Sozialstaat*. To avoid this scenario, he suggests a point system for selecting migrants according to professional expertise, age, health, language competence, and assets (Sinn, 5.1.2016).

Such a negative scenario is disputed by others. Marcel Fratzscher, Director of the German Institute of Economic Research (DIW), argues that quickly integrating refugees into the labor market despite their initial lower qualifications will provide long-run positive effects for the entire German economy. It is also shortsighted to consider educational training only as costs rather than as long-term investment that creates net value for companies and stimulates future demand. Some positive results are already visible in the latest data on GDP growth for 2015. It was widely expected that last year's GDP growth would range between 1.2 and 1.4 percent. The higher figure of 1.7% growth reflects the expenditures on refugees in terms of hiring new teachers, social workers and integration specialists, as well as providing the physical infrastructure to house refugees, the additional administrative staff to attend and register those refugees, along with the necessary border guards and policy officers. Herein lies the opportunity for Germany's shift from an export-led growth model to more domestic investment for physical and social infrastructure. Given that Germany has solid economic growth figures, it benefits from low interest rates and a low oil price. It also has the substantial cushion of a €12 billion household surplus, and it has sufficient spare capacity to invest in the training of refugees. These investments will return as future added value for the economy as a whole (*Der Spiegel* 47/2015).

Marcel Fratzscher is not alone in this positive outlook. Heiner Flassbeck argues that – rather than pitting the German Hartz-IV receivers against refugees and scrapping the minimum wage and other social benefits – the influx of refugees is an opportunity from which the entire population can benefit. Catching up on the neglected investment in infrastructure, environment, education and technology would satisfy two things at once: it would provide infrastructural investment and thus benefit future generations, while at the same time it would offer trading partners in the European periphery sufficient space to reduce their debts. Germany cannot indefinitely increase its competitiveness against its trading partners and hope that by exporting its surplus these countries will be able to repay their debts in the future. It is a huge illusion to think that the imbalances between German current account surpluses and deficits in Southern Europe will be sustainable (Flasssbeck 26.11.2015).

Despite the hysteria surrounding the refugee crisis at the beginning of 2016, the German situation does not look as bleak as many seem to predict. Even Finance Minister Wolfgang Schäuble has recently declared that the integration of refugees takes priority over the zero fiscal target. This may open the lock to a new imaginary of a domestic-led growth model in Germany. In the process, it may also return the Eurozone to a much-needed balanced current account regime.

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