German economy:
The current account surplus and the labour market: New challenges?

July, 7th 2016

Simon Junker

Franco-German Conference, 7-8th July 2016, Paris
German current account: huge and increasing

Net financial balance of the German economy in percent of GDP (corresponds to current account except for slight differences in statistical classification). Source: German Federal Statistical Office.

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Net investment/savings and balance of the German economy, in percent of GDP.
Weak investment drives German current account surplus

Net investment/savings and balance of the German economy, in percent of GDP; horizontal lines indicate period averages.

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Positive firm balances across many countries

Left: Net financial balances of the corporate sector in selected countries (in percent of GDP); source: AMECO.
Right: Corresponding country averages over 2011-15.

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German households‘ balance amongst the highest

Left: Net financial balances of the household sector in selected countries (in percent of GDP); source: AMECO.

Right: Corresponding country averages over 2011-15.

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Public deficits remain high – for now

Left: Net financial balances of the public sector ("deficit" if negative) in selected countries (in percent of GDP); source: AMECO.
Right: Corresponding country averages over 2011-15.

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“Typical” current account 5-5½ % (except for public debt)

Sectoral financial balances; cross country average for 18 countries listed above (except Germany), EU, Euro area and Germany.

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Firms refrain from investing – despite improving finances

Net investment/savings and balance of German corporations, in percent of GDP; lines indicate period averages.

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German investment weakness

- Given its high industry share, Germany should invest more
- Physical capital stock stagnates, in industry, it even declines
Panel regressions support weak investment hypothesis

- Models accounting for country specifics imply: Germany should invest more
- Investment weakness persists for more than a decade

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Globalization justifies surplus, still: investment too weak
Improve business conditions, e.g. warrant projectable costs (energy change)
Provide (tax) incentives (degressive depreciation scheme)
Surveys indicate shortage of skilled workers; foster labor market participation

(selected) literature

on investment weakness: ► Fratzscher/Gornig/Schiersch, DIW EB 15 / 2016: Weak Corporate Investment Requires Immediate Action; ► Fratzscher et al., DIW 27 / 2014: „Wirtschaftliche Impulse für Europa“; ► Fratzscher et al., DIW WB 26 / 2013: „Investitionen für mehr Wachstum – eine Zukunftsaagenda für Deutschland“;


on marital tax splitting: ► Bonin/Fichtl/Rainer/Spieß/Stichnoth/Wrohlich, DIW WB 40 / 2013: „Zentrale Resultate der Gesamtevaluation familienbezogener Leistungen“

Simon Junker, July, 7th 2016
Surplus of German households relatively high

Net investment/savings and balance of German households, in percent of GDP; lines indicate period averages.

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Industry wages relatively weak

Nominal value added and wage sum (including social contribution payments), 2000 = 100.
Transfers are quite high

Household income tax plus social security contributions by employees in relation to household primary income
Unequal income distribution may weigh on consumption: savings are high, but households don’t participate in growth equally. Low income households have low savings rate.

Higher income for low and middle income households could boost consumption.

Dynamics of disposable income could be higher, in particular wage income.

Higher gross wage growth (in particular in industry).

Higher net wage growth: government benefited from transfers in recent years.

Adjust cold progression; lower social contribution rates.

*(selected) literature*

on **gross wages**: ▶ Brenke, DIW WB 33 / 2014: „Sektorale Lohnentwicklung: der Schlüssel zu stärkeren Lohnsteigerungen liegt in der Industrie“

on **social contribution rates**: ▶ van Deuverden, DIW WB 26 / 2015: „Finanzpolitik: der richtige Mix von Steuern und Sozialabgaben hat Priorität!“

Public finances: net disinvestment despite surplus

Net investment/savings and balance of the German public sector, in percent of GDP; lines indicate period averages.
• Use surplus: improve business conditions (e.g. degressive depreciation scheme)
• ...invest in public infrastructure (complimentary to private investment: leverage)
• ...invest in digital infrastructure
• ...invest in education
• ...boost household income (possibly focus on low/middle income groups)

(selected) literature

on low public investment: Gornig/Michelsen/van Deuverden, DIW EB 42/43 / 2015: “Local Public Infrastructure Showing Signs of Wear and Tear”

on public/private investment nexus: Dreger/Reimers, DIW 18 / 2016: „Welcher Zusammenhang besteht zwischen öffentlichen und privaten Investitionen?“
Vielen Dank für Ihre Aufmerksamkeit.
Thank you for your attention.

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