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OP-ED COLUMNIST

Those Depressing Germans

By PAUL KRUGMAN

Published: November 3, 2013 | 847 Comments

German officials are [furious](#) at America, and not just because of the business about Angela Merkel's cellphone. What has them enraged now is one (long) paragraph in a U.S. Treasury [report](#) on foreign economic and currency policies. In that paragraph Treasury argues that Germany's huge surplus on current account — a broad measure of the trade balance — is harmful, creating “a deflationary bias for the euro area, as well as for the world economy.”

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The Germans angrily pronounced this argument “incomprehensible.” “There are no imbalances in Germany which require a correction of our growth-friendly economic and fiscal policy,” declared a spokesman for the nation's finance ministry.

But Treasury was right, and the German reaction was disturbing. For one thing, it was an indicator of the continuing refusal of policy makers in Germany, in Europe more broadly and for that matter around the world to face up to the nature of our economic problems. For another, it demonstrated Germany's unfortunate tendency to respond to any criticism of its economic policies with cries of victimization.

First, the facts. Remember the China syndrome, in which Asia's largest economy kept running enormous trade surpluses thanks to an undervalued currency? Well, China is still running surpluses, but they have declined. Meanwhile, Germany has taken China's place: Last year Germany, not China, ran the world's biggest current account surplus. And measured as a share of G.D.P., Germany's surplus was more than twice as large as China's.

Now, it's true that Germany has been running big surpluses

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for almost a decade. At first, however, these surpluses were matched by large deficits in southern Europe, financed by large inflows of German capital. Europe as a whole continued to have roughly balanced trade.

Then came the crisis, and flows of capital to Europe's periphery collapsed. The debtor nations were forced — in part at Germany's insistence — into harsh austerity, which eliminated their trade deficits. But something went wrong. The narrowing of trade imbalances should have been symmetric, with Germany's surpluses shrinking along with

the debtors' deficits. Instead, however, Germany failed to make any adjustment at all; deficits in Spain, Greece and elsewhere shrank, but [Germany's surplus didn't](#).

This was a very bad thing for Europe, because Germany's failure to adjust magnified the cost of austerity. Take Spain, the biggest deficit country before the crisis. It was inevitable that Spain would face lean years as it learned to live within its means. It was not, however, inevitable that [Spanish unemployment](#) would be almost 27 percent, and youth unemployment almost 57 percent. And Germany's immovability was an important contributor to Spain's pain.

It has also been a bad thing for the rest of the world. It's simply arithmetic: Since southern Europe has been forced to end its deficits while Germany hasn't reduced its surplus, Europe as a whole is running large trade surpluses, helping to keep the world economy depressed.

German officials, as we've seen, respond to all of this with angry declarations that German policy has been impeccable. Sorry, but this (a) doesn't matter and (b) isn't true.

Why it doesn't matter: Five years after the fall of Lehman, the world economy is still depressed, suffering from a persistent shortage of demand. In this environment, a country that runs a trade surplus is, to use the old phrase, begging its neighbors. It's diverting spending away from their goods and services to its own, and thereby taking away jobs. It doesn't matter whether it's doing this maliciously or with the best of intentions, it's doing it all the same.

Furthermore, as it happens, Germany isn't blameless. It shares a currency with its neighbors, greatly benefiting German exporters, who get to price their goods in a weak euro instead of what would surely have been a soaring Deutsche mark. Yet Germany has failed to deliver on its side of the bargain: To avoid a European depression, it needed to spend more as its neighbors were forced to spend less, and it hasn't done that.

German officials won't, of course, accept any of this. They consider their country a shining role model, to be emulated by all, and the awkward fact that we can't all run gigantic trade surpluses simply doesn't register.

And the thing is, it's not just the Germans. Germany's trade surplus is damaging for the same reason cutting food stamps and unemployment benefits in America destroys jobs — and Republican politicians are about as receptive as German officials to anyone who tries to point out their error. In the sixth year of a global economic crisis whose essence is that there isn't enough spending, many policy makers still don't get it. And it looks as if they never will.

A version of this op-ed appears in print on November 4, 2013, on page A25 of the New York

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Aaron - San Diego
May I suggest that the US dramatically reduce it's military spending and let Germany pick up the slack...
Nov. 4, 2013 at 1:27 p.m. RECOMMENDED 135

PAC - New Jersey
I was curious to see how Krugman would take a shot at Republicans in a column about European economics. I had to wait until the last paragraph, but he didn't let me down.
Oh, Paul. You are delightfully predictable.
Nov. 4, 2013 at 1:27 p.m. RECOMMENDED 40

Nicholas - Berlin
Thanks to all readers who expressed their dismay at Paul Krugman's repetitive complaints about those recalcitrant Germans. It is a pleasure to read the many understanding comments criticizing Krugman's bias and blindness.
Many comments show the deep level of trust and friendship between our

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