

Kopenhagen, October 5, 2018

# Germany, the Euro and a new economic theory

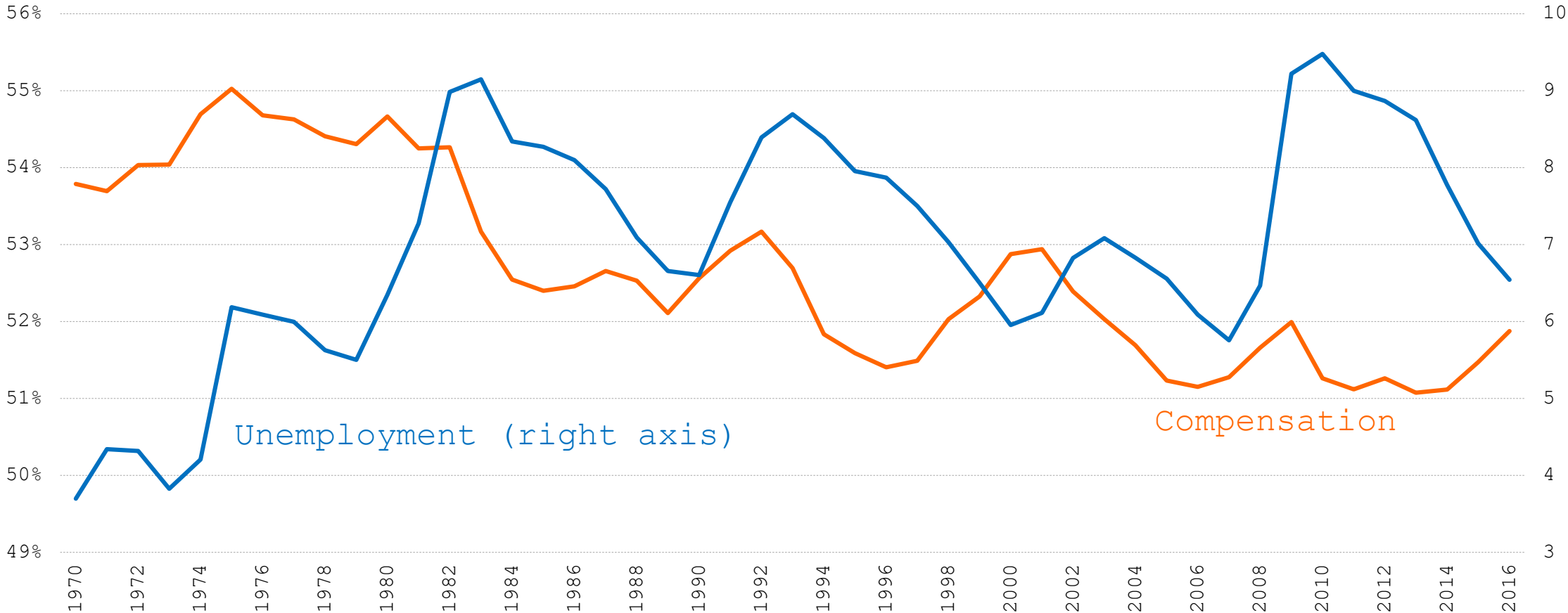
Prof. Dr. Heiner Flassbeck

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# Redistribution favouring high employment?

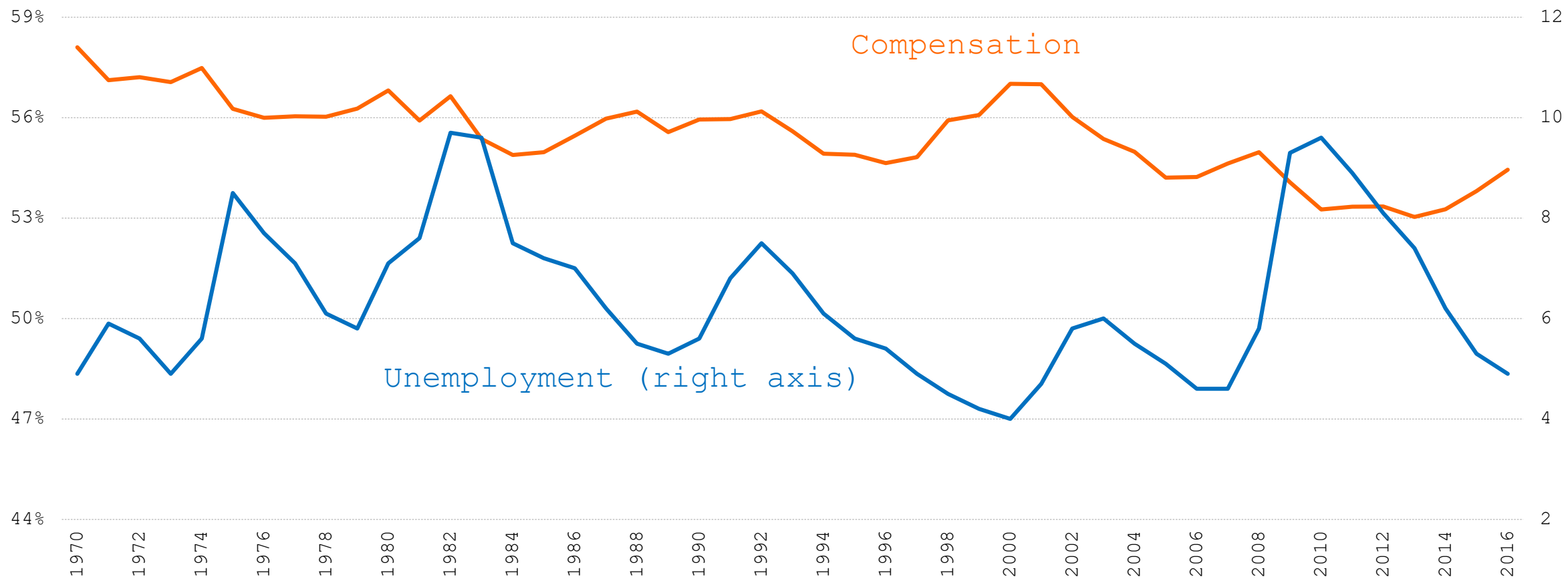
Unemployment<sup>1)</sup> and wage share<sup>2)</sup> in the western world<sup>3)</sup>



<sup>1)</sup> Unemployment rate in percent of active population; <sup>2)</sup> Compensation of employees in percent of nominal GDP; <sup>3)</sup> GDP-weighted average figures of Germany, France, Italy, Spain, UK, Sweden, Denmark, Finland, USA and Canada  
 Source: AMECO

# In the US: No change in the pattern of unemployment but lower wage share

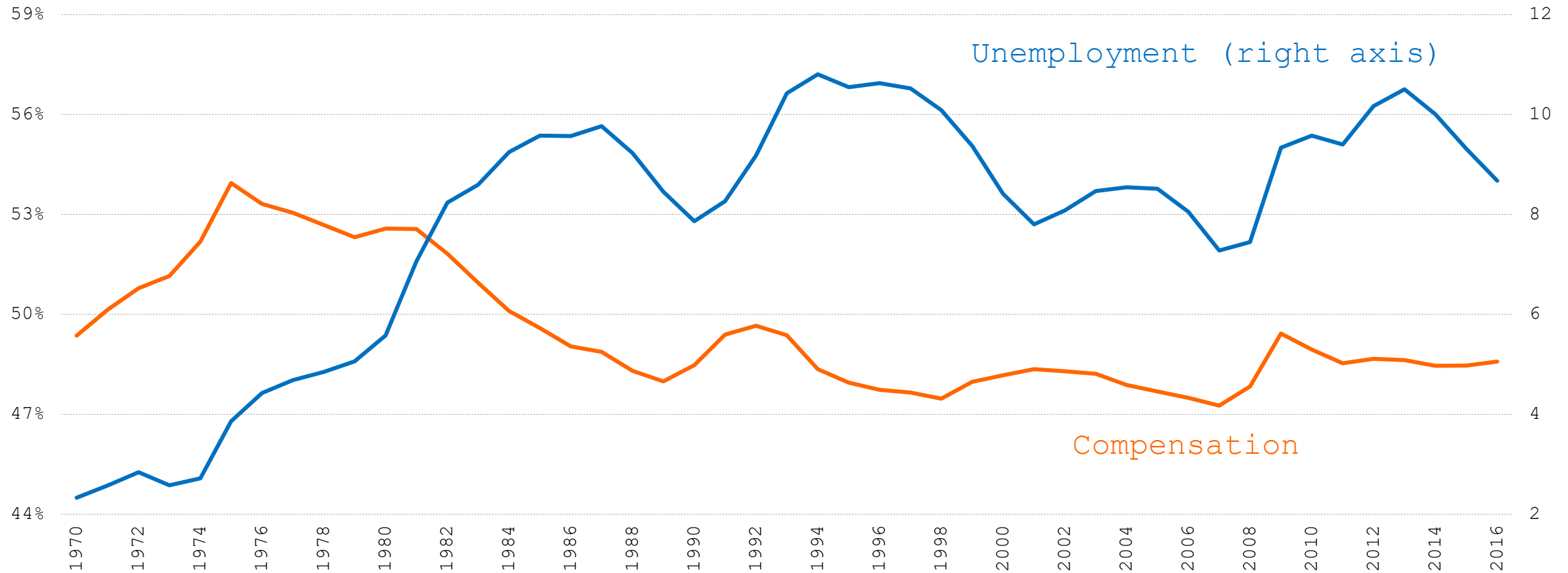
## Unemployment<sup>1)</sup> and compensation<sup>2)</sup> in the US



<sup>1)</sup> Unemployment rate in percent of active population; <sup>2)</sup> Compensation of employees in percent of nominal GDP  
Source: AMECO

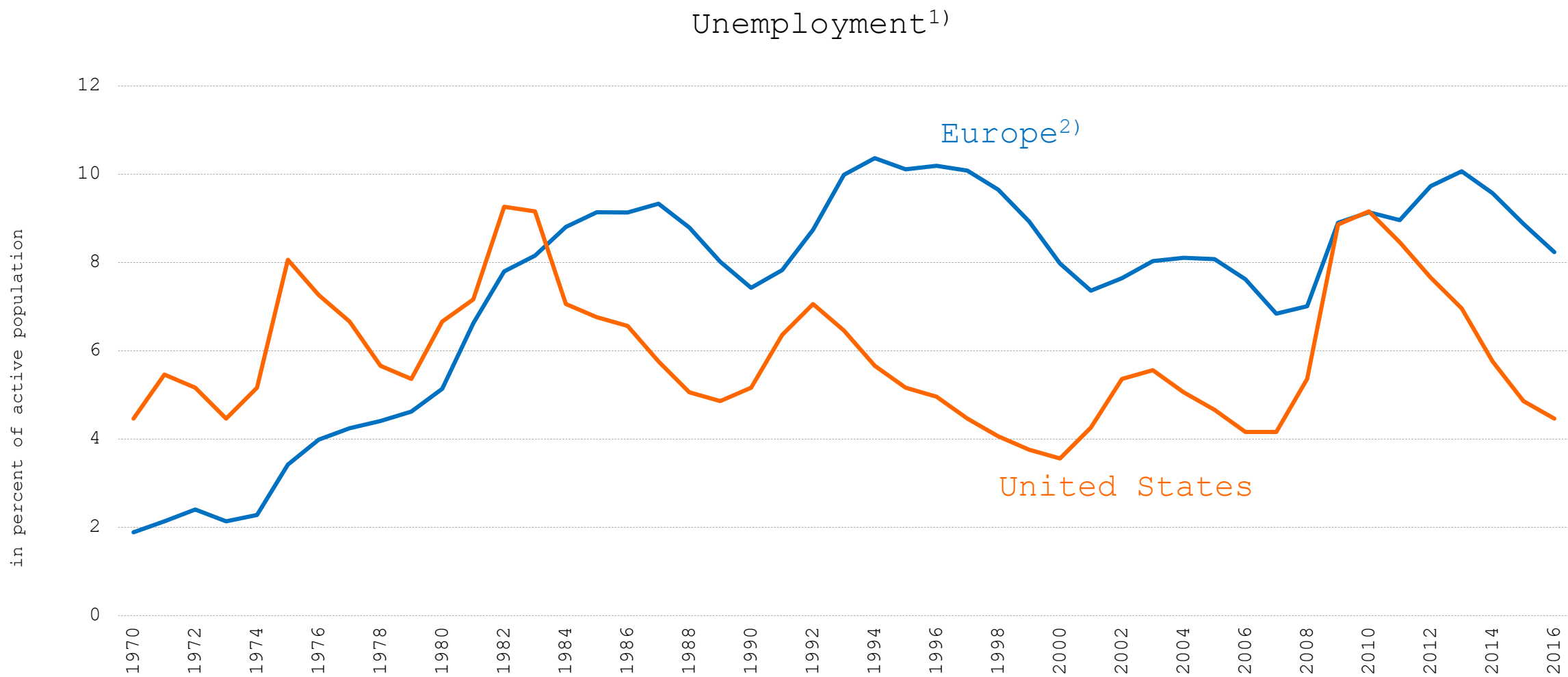
# In Europe: A much lower wage share but very high unemployment

Unemployment<sup>1)</sup> and wage share<sup>2)</sup> in Europe<sup>3)</sup>



<sup>1)</sup> Unemployment rate in percent of active population; <sup>2)</sup> Compensation of employees in percent of nominal GDP; <sup>3)</sup> GDP-weighted average figures of Germany, France, Italy, Spain, UK  
Source: AMECO

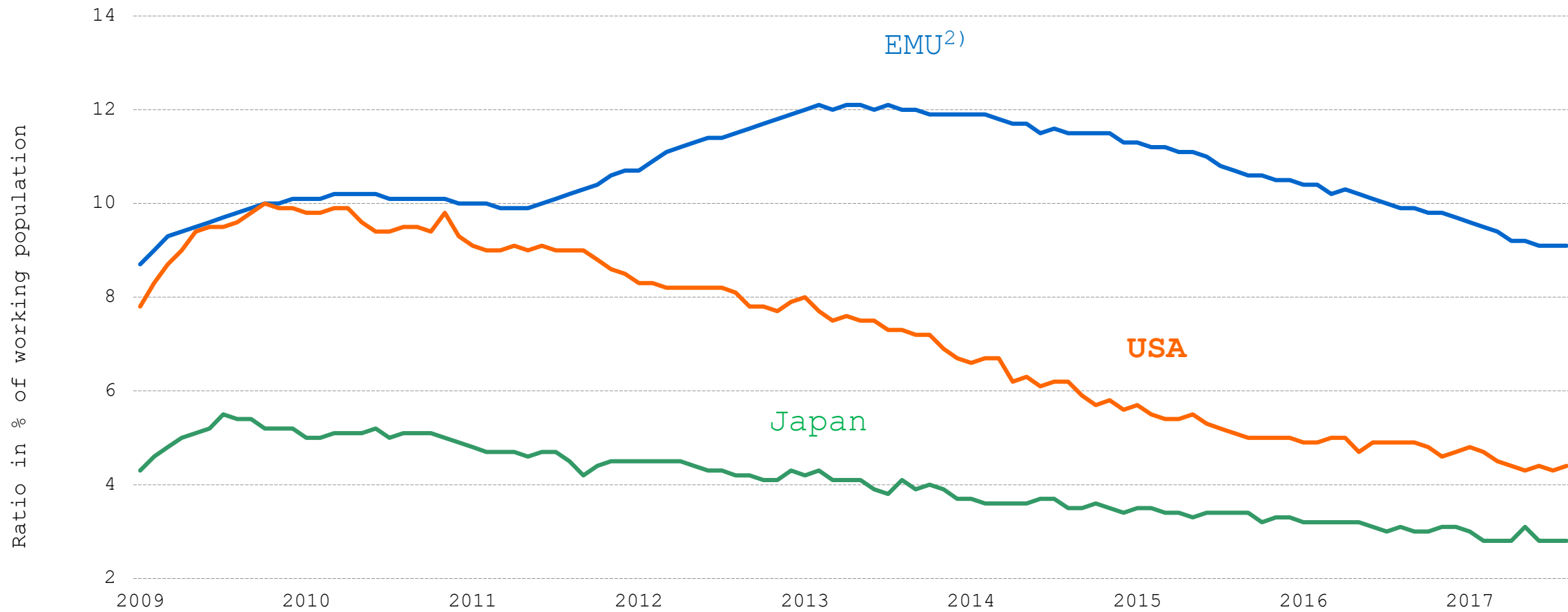
# Why did Europe fail so miserably?



<sup>1)</sup> Unemployment rate in percent of active population; <sup>2)</sup> GDP-weighted average of Germany, France, Italy, Spain, UK  
Source: AMECO

With an unchanged wage share the US performs much better than Europe

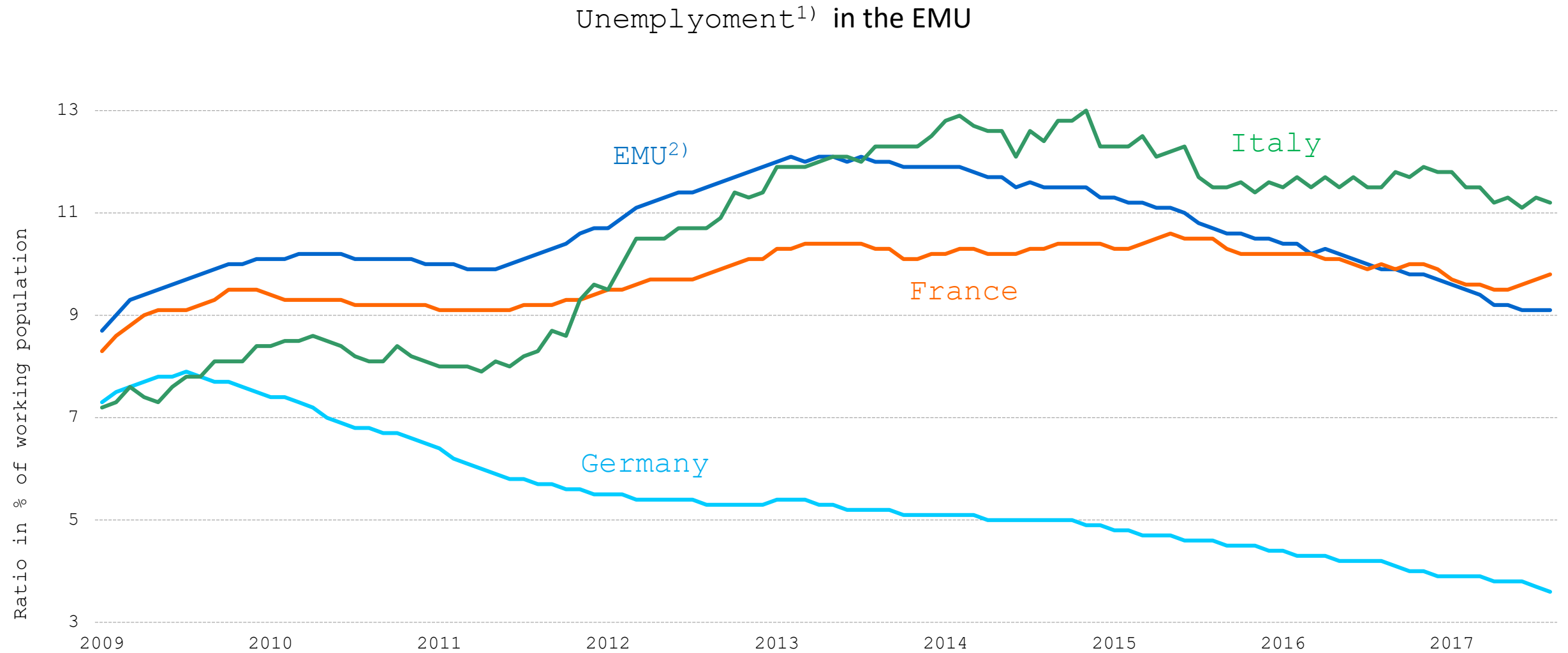
Unemployment<sup>1)</sup> in different countries



<sup>1)</sup> Ratio of unemployed to working population, seasonally adjusted, harmonized. <sup>2)</sup> 18 EMU-countries.

Source: Eurostat

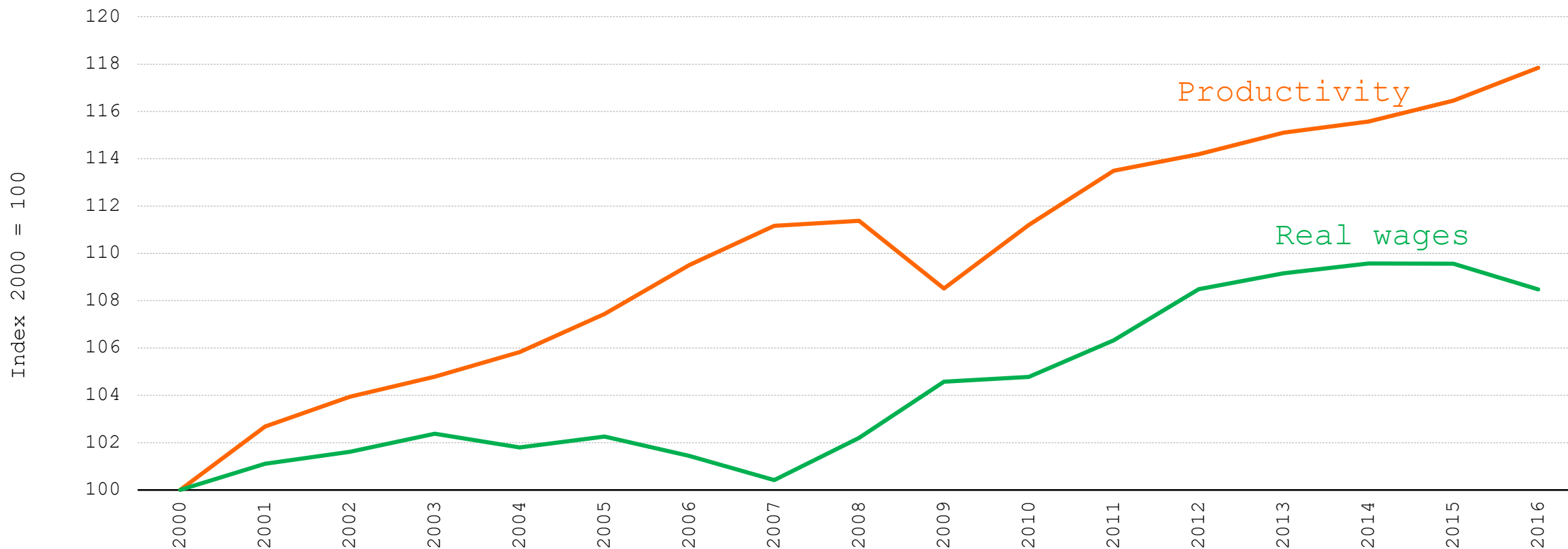
But Germany seems to refute



<sup>1)</sup> Ratio of unemployed to working population, seasonally adjusted, harmonized. <sup>2)</sup> 18 EMU-countries.  
Source: Eurostat

# Are real wages lagging behind productivity the recipe for success?

Real wages<sup>1)</sup> and productivity<sup>2)</sup>  
per hour in Germany



<sup>1)</sup> Gross income from employed labour, price-adjusted with GDP deflator, per hour worked by employees, 2000 = 100; Value for 2016 of the average number of hours worked by employees has been estimated

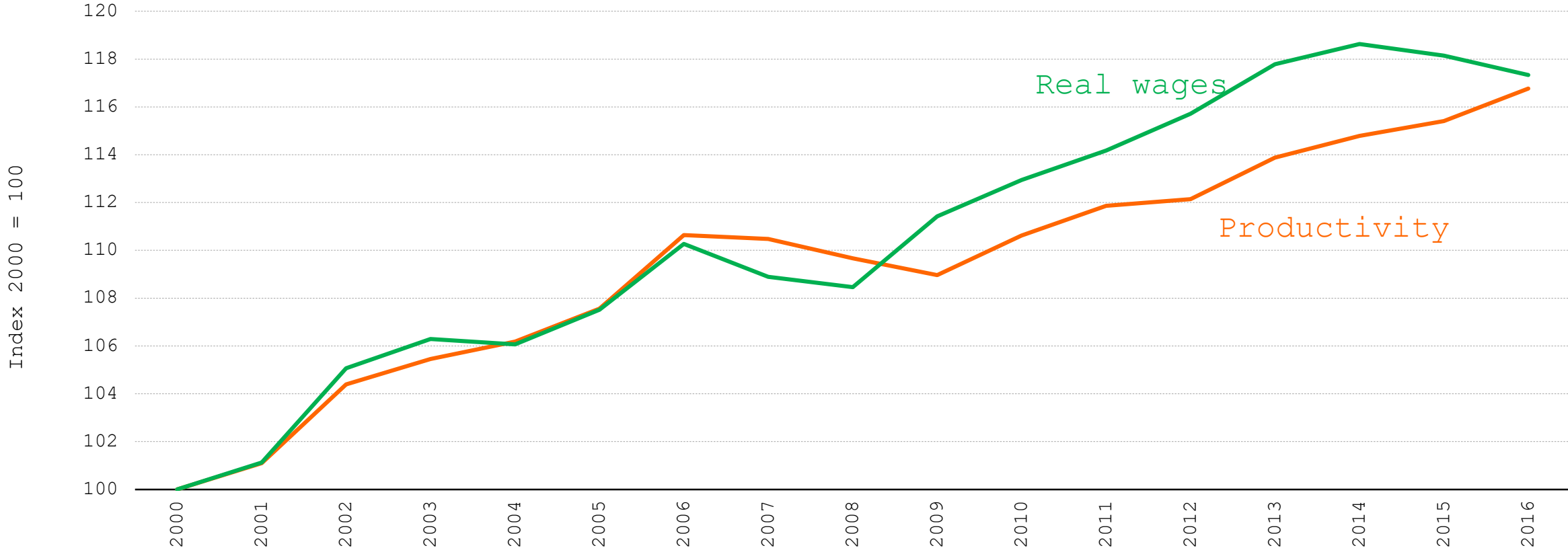
<sup>2)</sup> Real gross domestic product in national currency per hour of employment, 2000 = 100

Source: AMECO, OECD



# Did France miss the right economic theory?

Real wages <sup>1)</sup> and productivity <sup>2)</sup>  
per hour in France



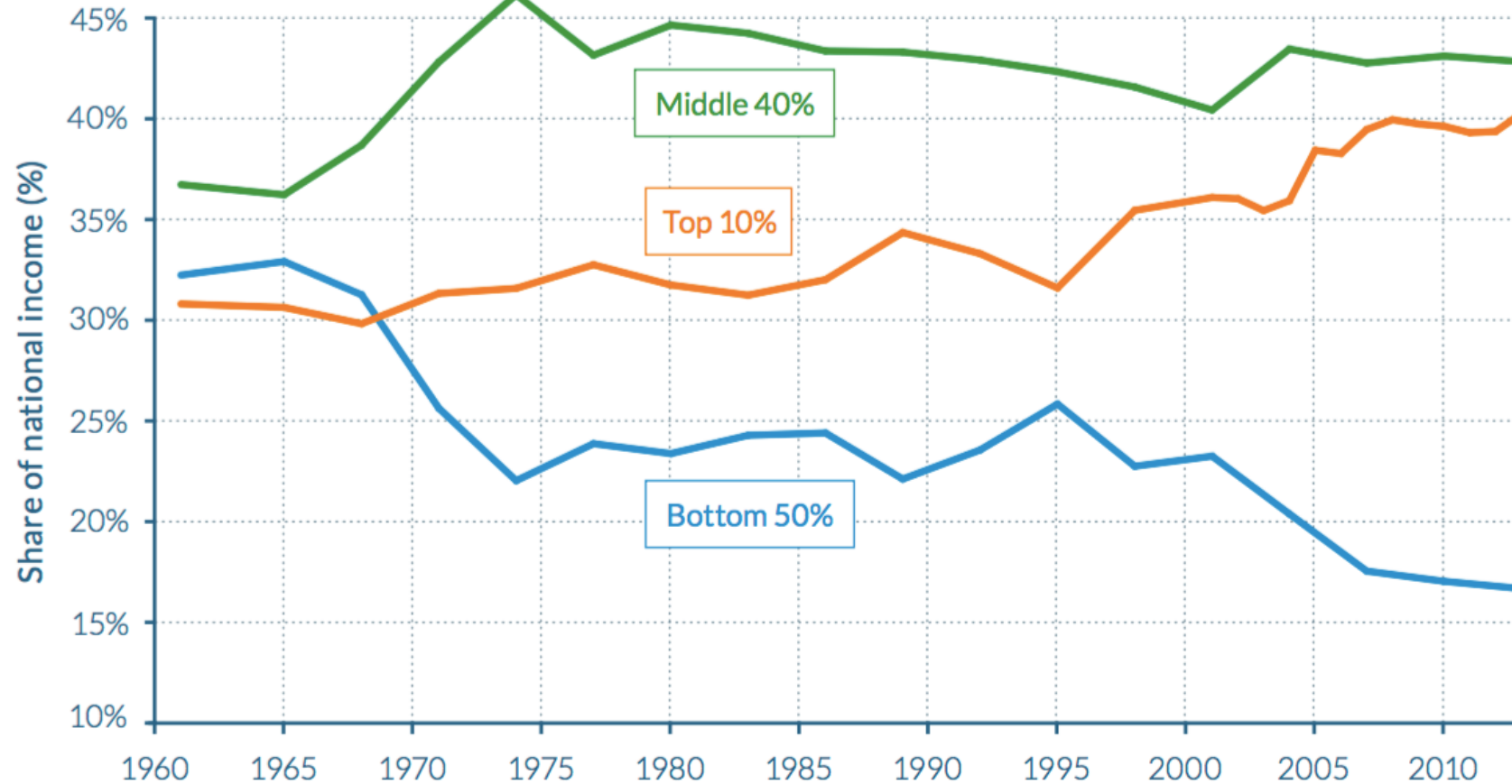
<sup>1)</sup> Gross income from employed labour, price-adjusted with GDP deflator, per hour worked by employees, 2000 = 100; Value for 2016 of the average number of hours worked by employees has been estimated

<sup>2)</sup> Real gross domestic product in national currency per hour of employment, 2000 = 100

Source: AMECO, OECD

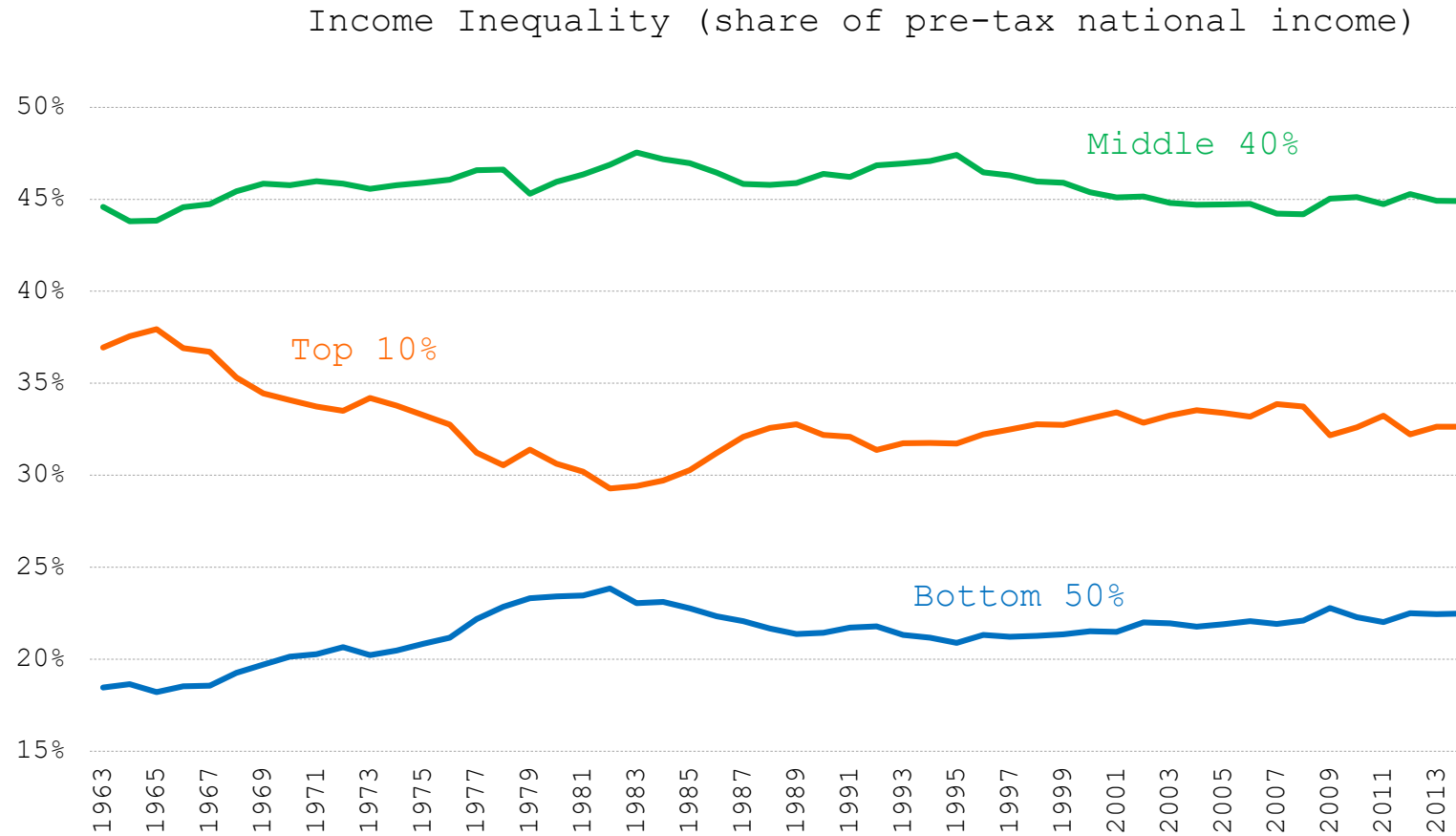
Muss man wie Deutschland zugunsten der Reichen umverteilen, um die Arbeitslosigkeit zu bekämpfen?

### Income shares in Germany, 1961-2013



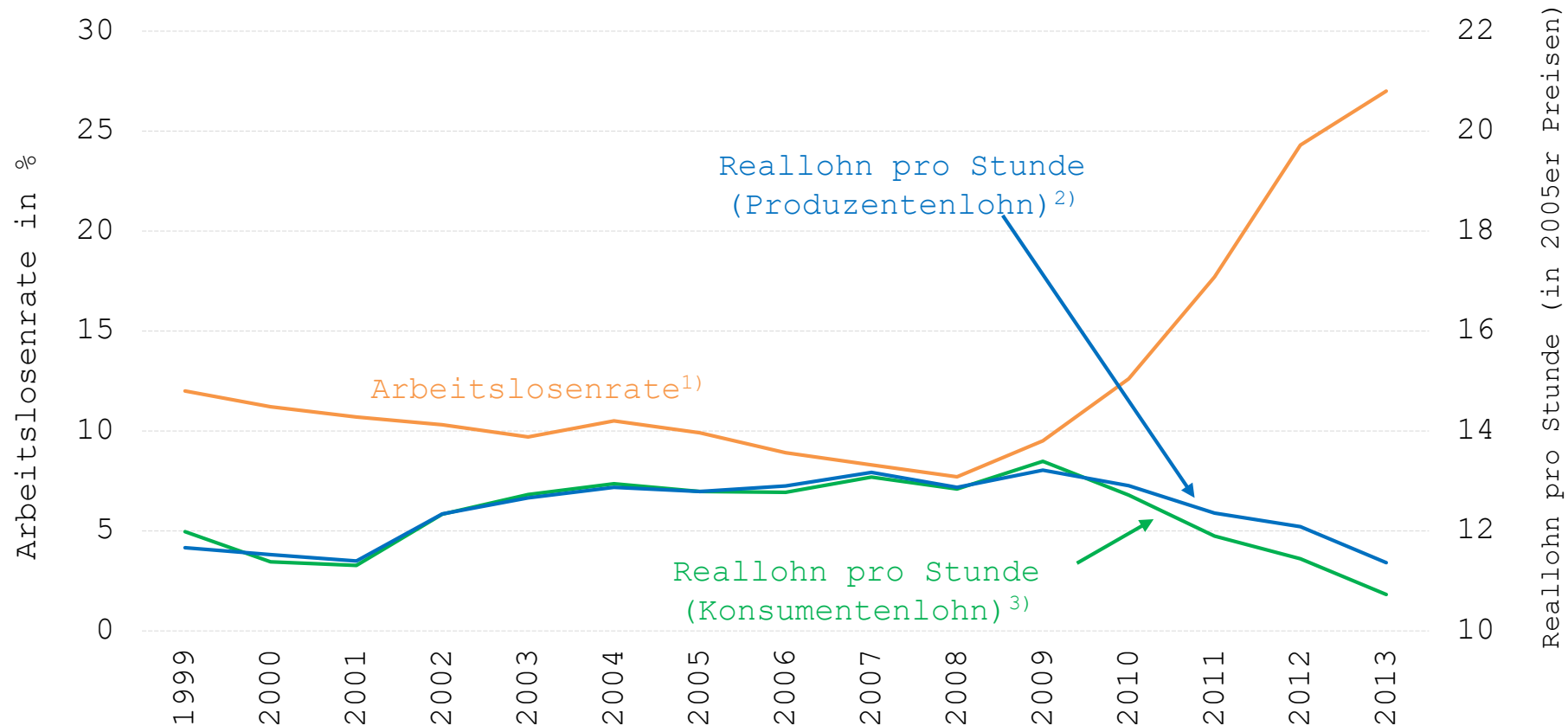
Source: Bartels (2017). See [wir2018.wid.world](#) for data series and notes.

# Lag Frankreich mit einer Politik des Ausgleichs ganz falsch?



Source: WID

# Warum war Griechenland nicht erfolgreich mit seiner drastischen Reallohnsenkung?



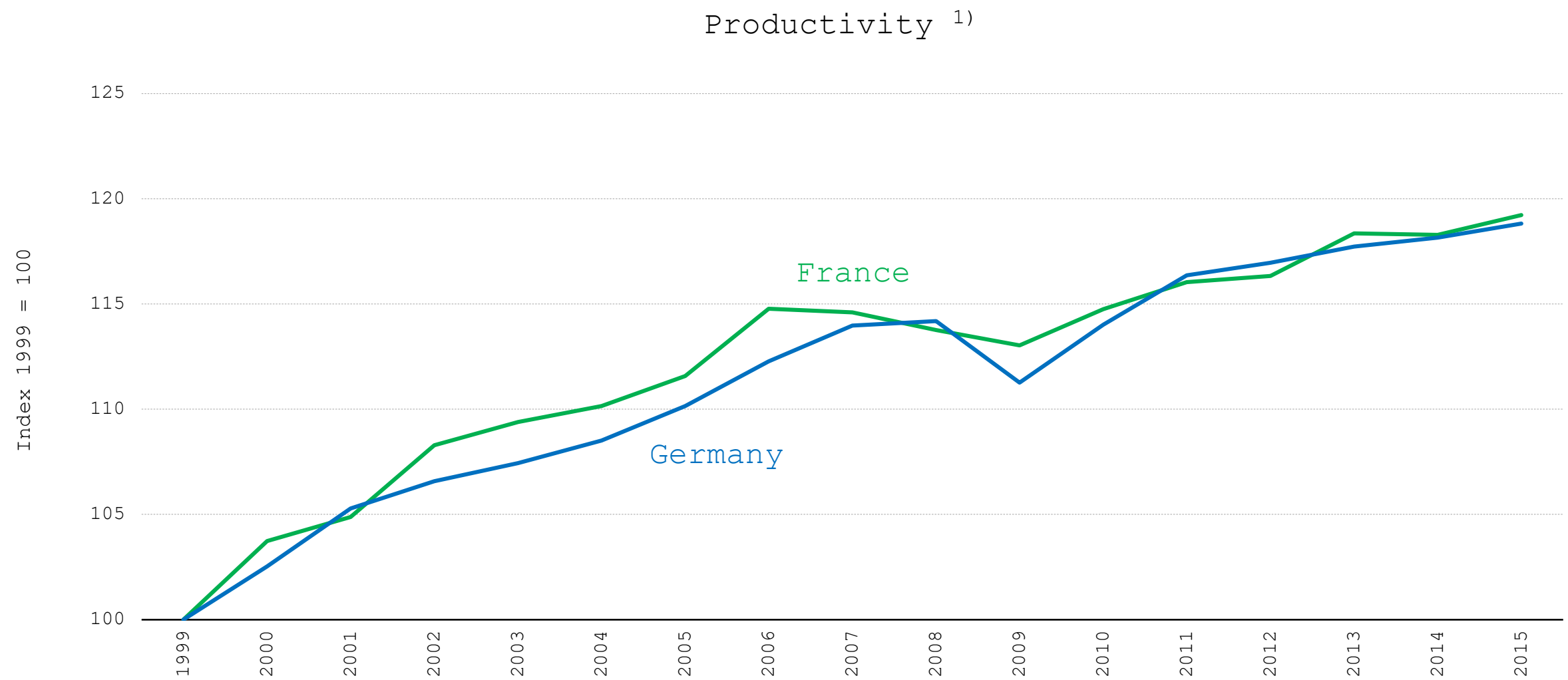
1) Arbeitslose in %, im Verhältnis von beschäftigten zu unbeschäftigten Personen; Definiert von Eurostat, linke Skala

2) Vergütung von Angestellten pro tatsächlich gearbeiteter Stunde; BIP-Deflator einbezogen, rechte Skala

3) Vergütung von Angestellten pro tatsächlich gearbeiteter Stunde; Deflator für privaten Verbrauch einbezogen, rechte Skala

Quelle: Ameco (Mai 2013), Werte für 2013 sind Schätzungen der EU-Kommission.

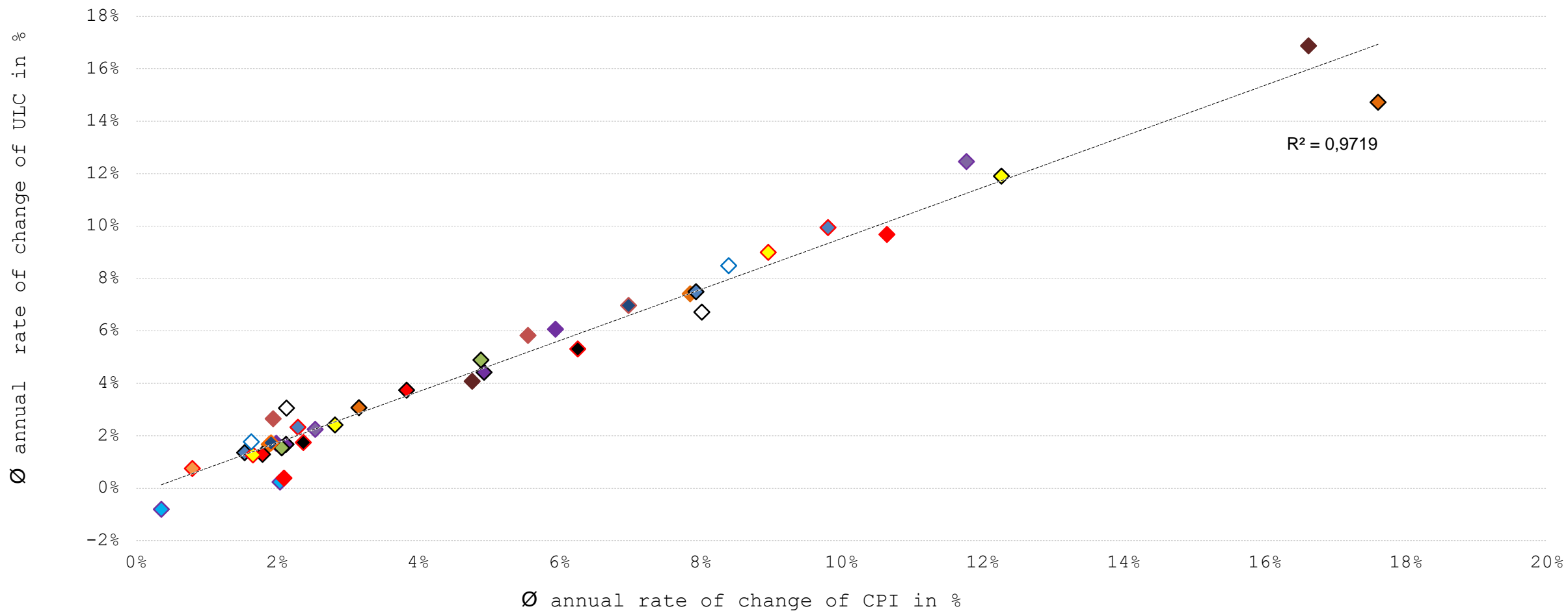
... In particular not since the Beginning of EMU



<sup>1)</sup> Real gross domestic product in national currency per hour of employment, 1999 = 100  
Source: AMECO

# The relevant relationship: Wages determine prices not employment

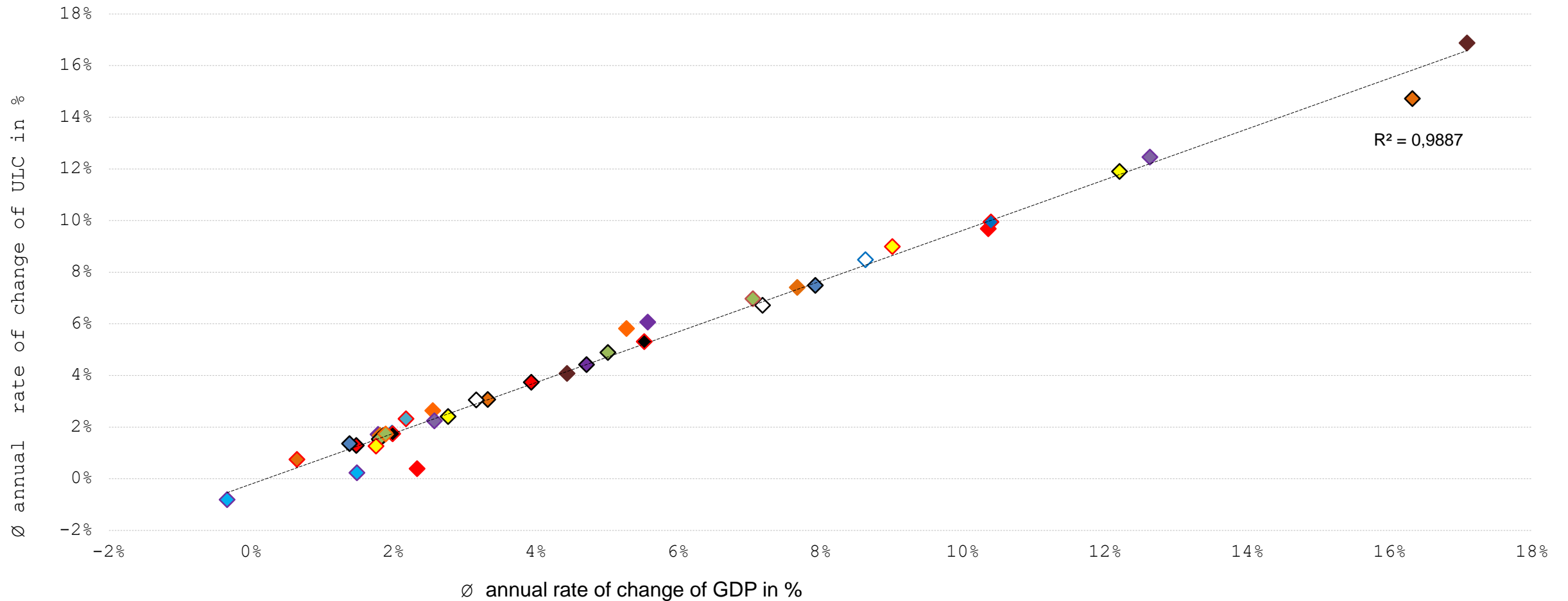
Inflation (CPI) und ULC Growth  
in different countries, 1970-1990 and 1990-2016



Source: Ameco; Apart from Switzerland all countries are marked with two dots for the given period of time. Japan ab 1980. CPI stands for consumer price inflation

# Even better by using the GDP-Deflator

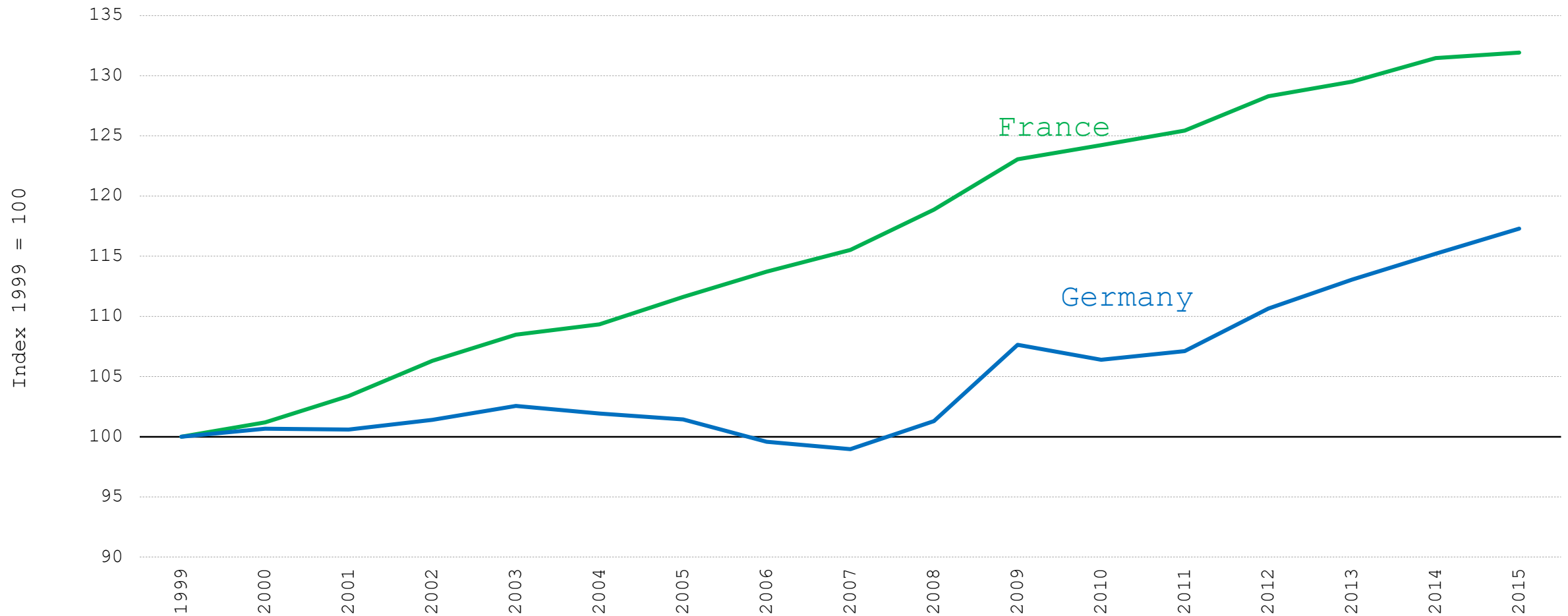
Inflation (GDP) und ULC Growth  
in different countries, 1970-1990 and 1990-2016



Source: Ameco; Apart from Switzerland all countries are marked with two dots for the given period of time. Japan ab 1980.

# But Germany is cheaper

ULC <sup>1)</sup>

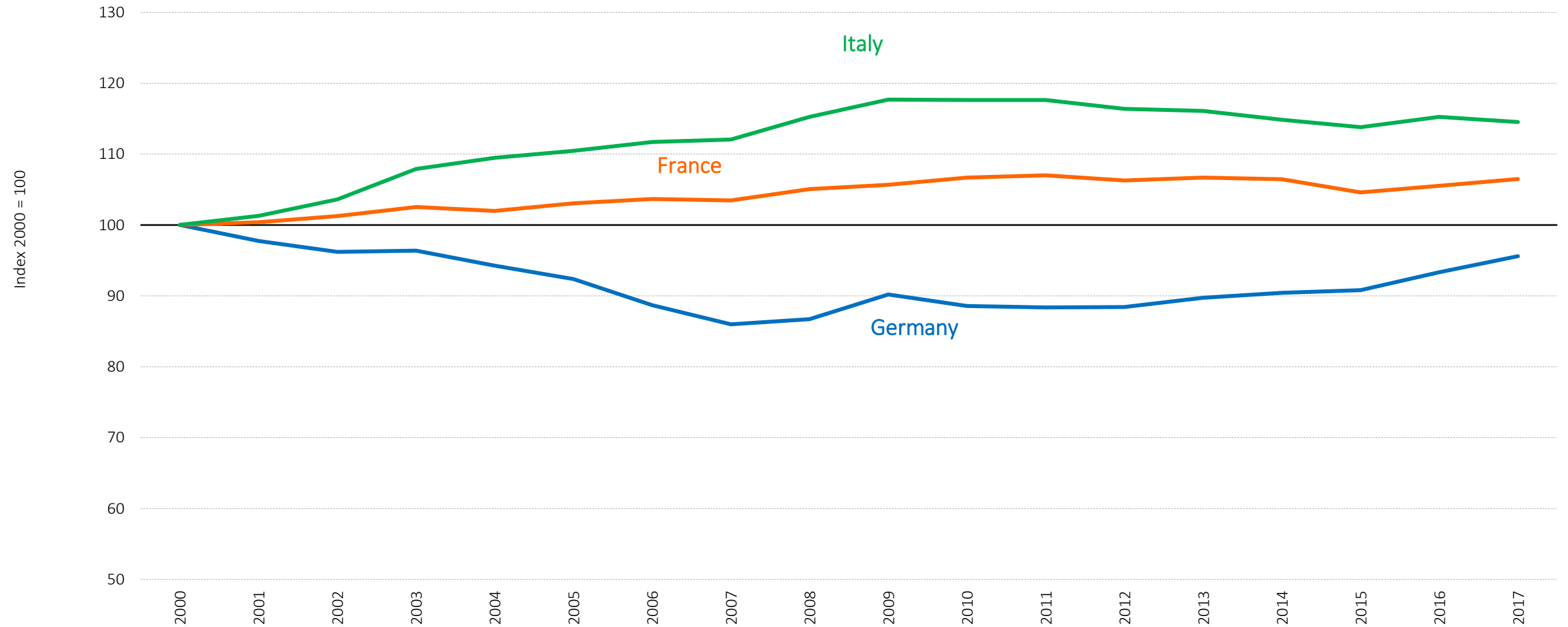


<sup>1)</sup> Gross income from employed labour in national currency (euro) per employee in relation to real gross domestic product per employee; 1999 = 100

Source: AMECO

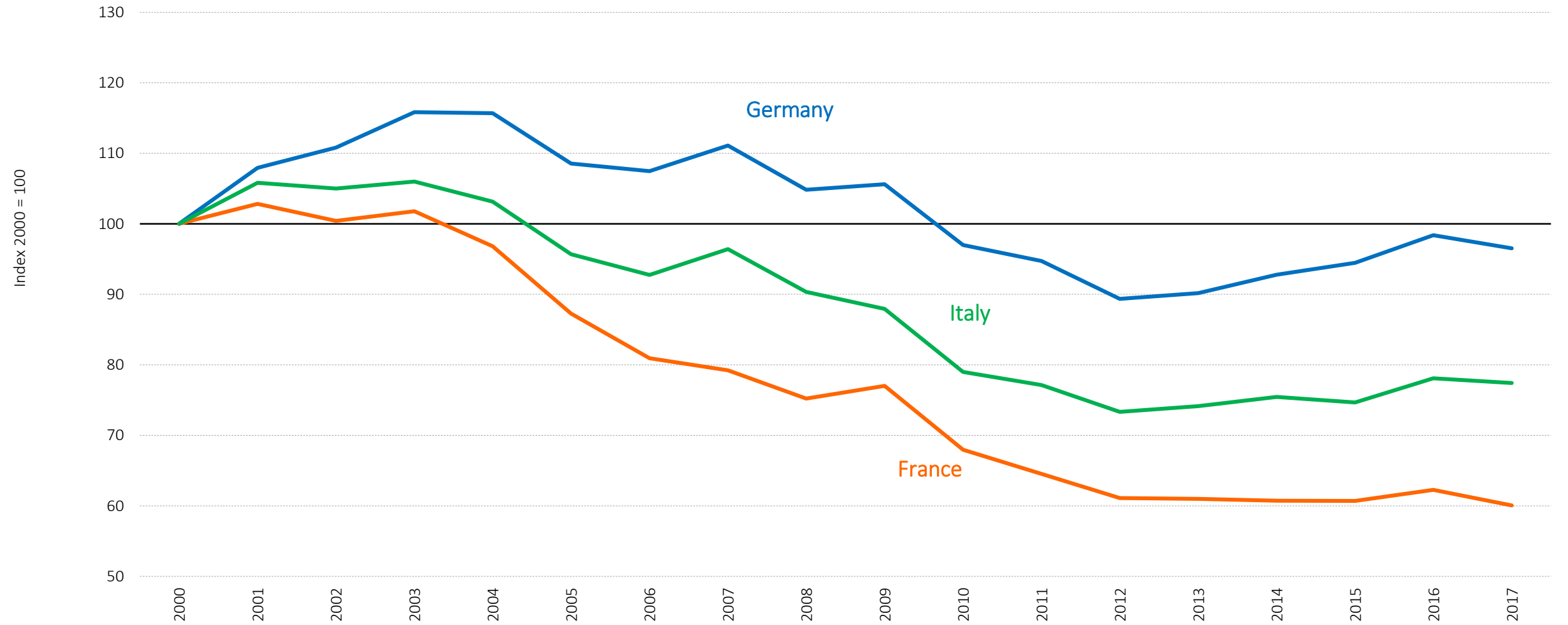


# Real effective exchange rates<sup>1)</sup>



<sup>1)</sup> 2000 = 100, based on unit labour costs (total economy); Performance relative to the rest of the former EU-15: double export weights  
Source: AMECO

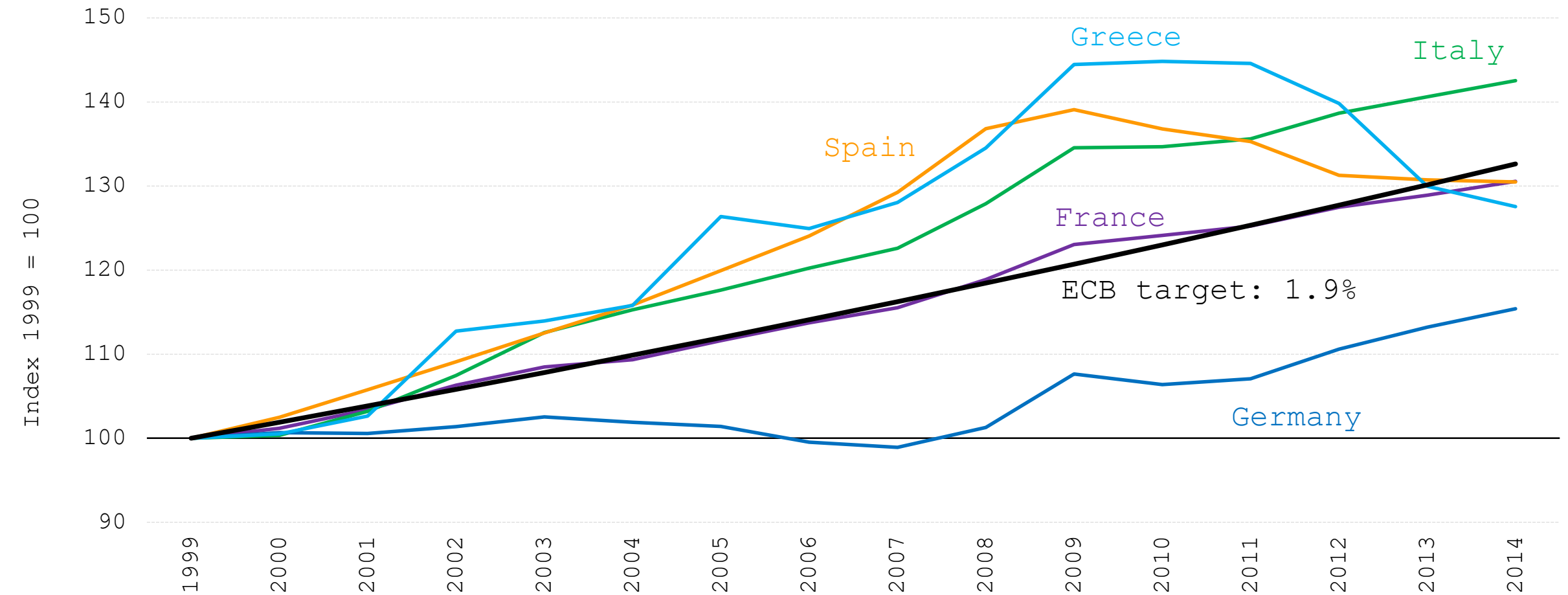
# World Export Shares (Goods)<sup>1)</sup>



<sup>1)</sup> 2000 = 100

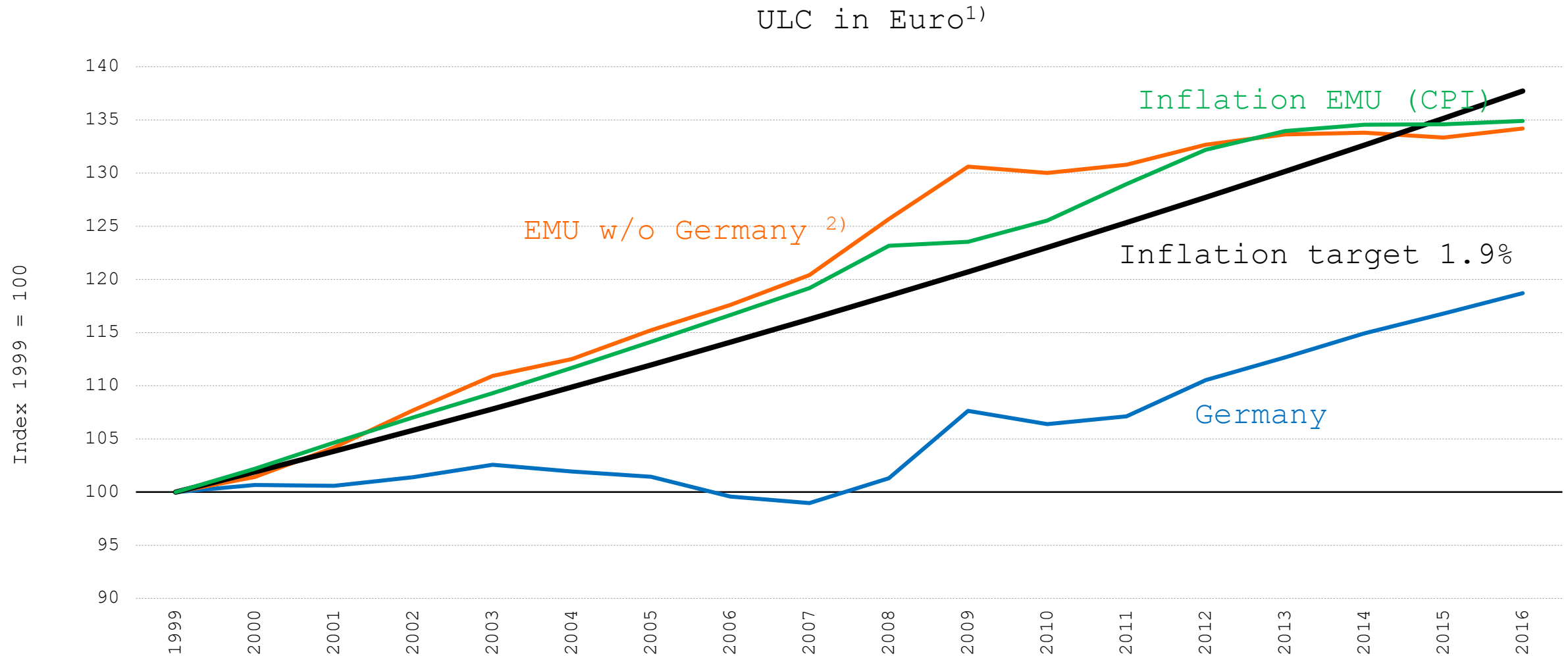
Source: IMF, Direction of Trade Statistics

... Germany is too cheap in comparison to the inflation target



<sup>1)</sup> Ratio of compensation per employee to real GDP per person employed; Index 1999 = 100

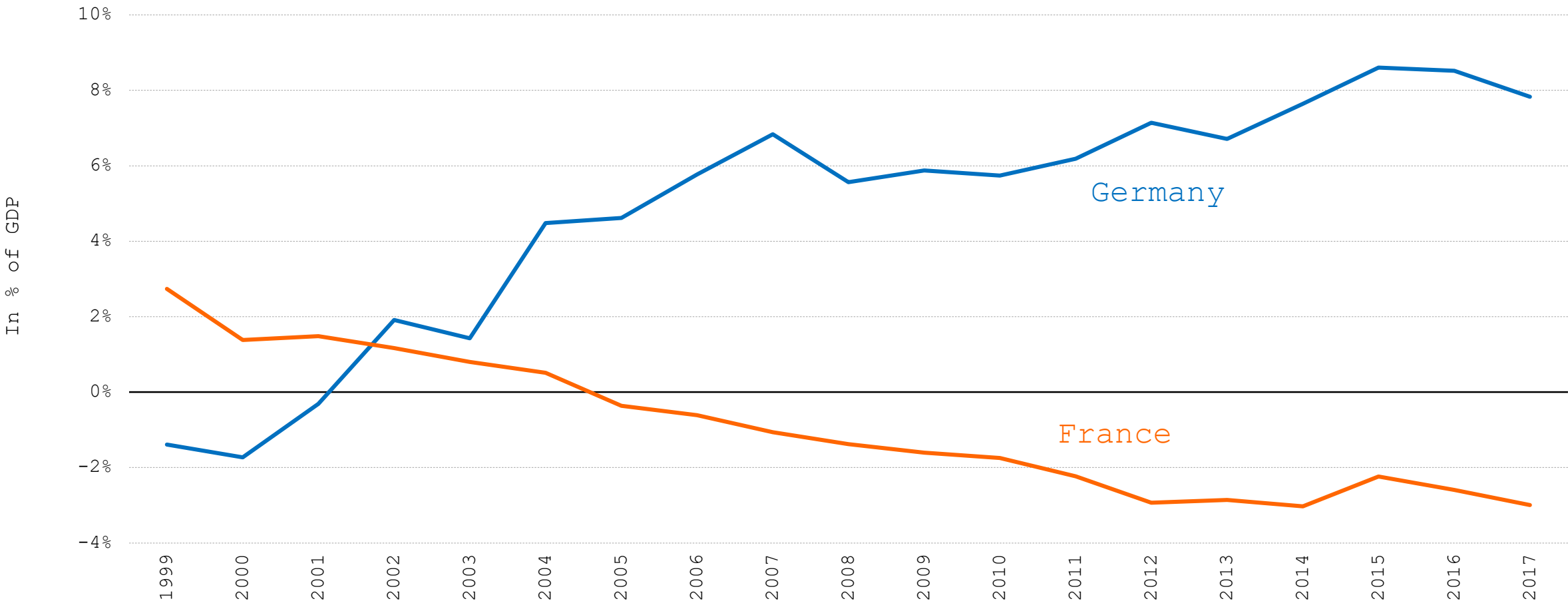
... and absurdly forces the others to deflationary adjustment



<sup>1)</sup> Gross income from salaried employment in national currency per employee in relation to real gross domestic product per employee; Index 1999 = 100; <sup>2)</sup> ULC growth rates of member countries weighted with GDP  
Source: AMECO

... Germany's success is of a mercantilist nature

Current account balance <sup>1)</sup> of Germany and France

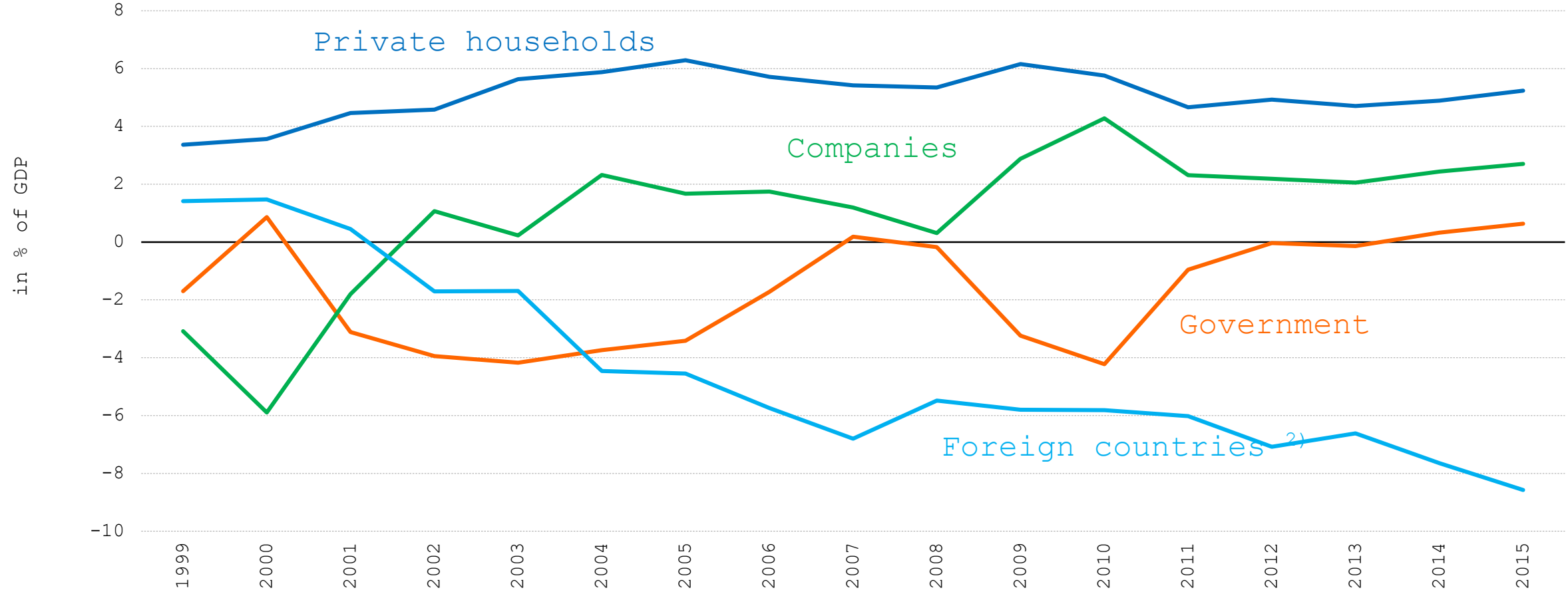


1) In % of GDP; 2017: Estimates of the commission

Source: AMECO

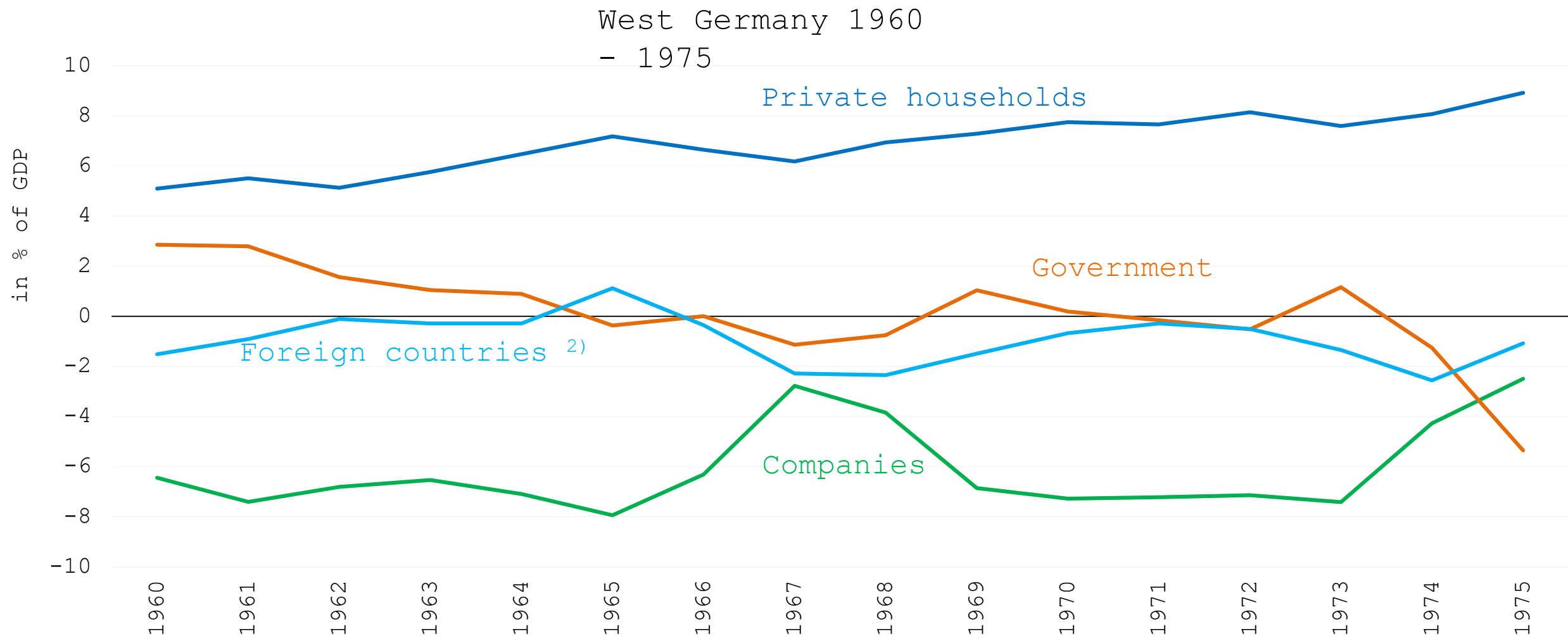
# Its financial balances are unsustainable

## Current account balance <sup>1)</sup> of economic sectors In Germany



<sup>1)</sup> In % of nominal GDP; <sup>2)</sup> Negative values mean foreign debt  
Source: AMECO

... once upon a time Germany has been a true market economy



1) As a percentage of nominal gross domestic product

2) Negative values mean foreign debt



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Flassbeck  
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## Inflation (CPI) und Lohnstückkostenwachstum in verschiedenen Ländern, 1970-1990 und 1990-2016

Länder	1970-1990		1990-2016	
	CPI	ULC	CPI	ULC
Belgien <span style="color: purple;">◆</span>	5,94%	6,06%	1,98%	1,71%
Dänemark <span style="color: green;">◆</span>	7,85%	7,41%	1,89%	1,67%
Deutschland <span style="color: red;">◆</span>	3,83%	3,73%	1,79%	1,29%
Irland <span style="color: red;">◆</span>	10,64%	9,68%	2,10%	0,38%
Griechenland <span style="color: brown;">◆</span>	16,62%	16,87%	4,76%	4,08%
Spanien <span style="color: yellow;">◆</span>	12,26%	11,90%	2,82%	2,41%
Frankreich <span style="color: blue;">◆</span>	7,94%	7,49%	1,54%	1,35%
Italien <span style="color: purple;">◆</span>	11,77%	12,46%	2,54%	2,24%
Luxemburg <span style="color: orange;">◆</span>	5,56%	5,82%	1,94%	2,64%
Niederlande <span style="color: blue;">◆</span>	4,93%	4,42%	2,12%	1,67%
Österreich <span style="color: blue;">◆</span>	4,89%	4,89%	2,06%	1,53%
Portugal <span style="color: green;">◆</span>	17,60%	14,72%	3,16%	3,06%
Finnland <span style="color: orange;">◆</span>	8,96%	8,99%	1,65%	1,26%
Schweden <span style="color: blue;">◆</span>	8,40%	8,48%	1,63%	1,76%
Großbritannien <span style="color: red;">◆</span>	9,81%	9,94%	2,29%	2,32%
Norwegen <span style="color: blue;">◆</span>	8,02%	6,72%	2,13%	3,05%
USA <span style="color: red;">◆</span>	6,26%	5,31%	2,37%	1,74%
Japan <span style="color: purple;">◆</span>	2,04%	0,23%	0,36%	-0,81%
Kanada <span style="color: orange;">◆</span>	6,98%	6,97%	1,91%	1,73%
Schweiz <span style="color: red;">◆</span>			0,80%	0,75%

Quelle: Ameco

\*Schweiz ab 1991; Japan ab 1980