

# Surplus & Demographics: The German Case

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# Is Paul Krugman in the Audience?

The Opinion Pages



**The Conscience of**  
PAUL KRUGMAN

OP-ED COLUMNIST

## Those Depressing Germans

By PAUL KRUGMAN

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## The Harm Germany Does

NOVEMBER 1, 2013 11:41 AM

156 Comments

Current account balances as % of GDP



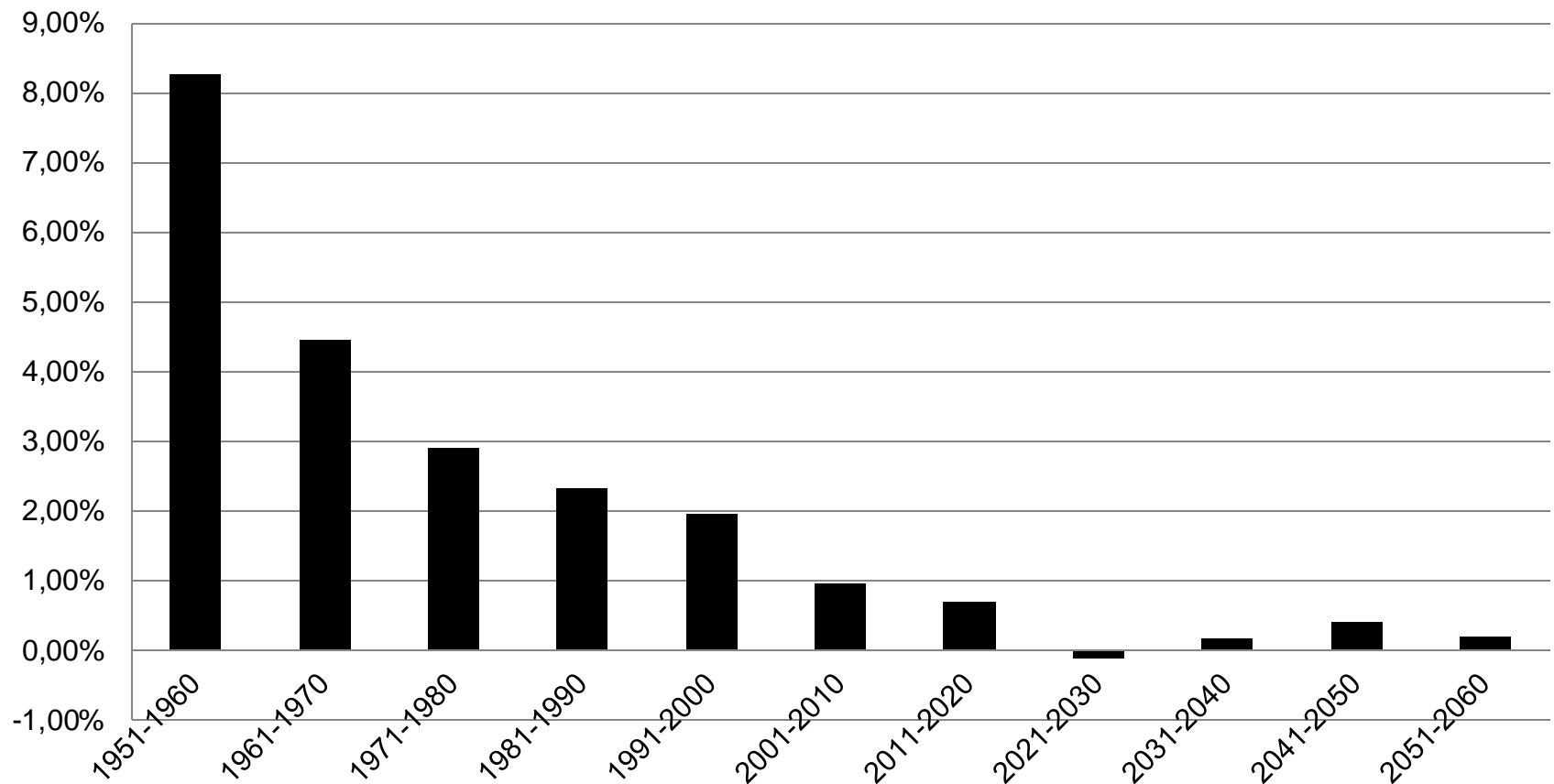
- On Europe: “Germany has failed to deliver on its side of the bargain: To avoid a European depression, it needed to spend more as its neighbors were forced to spend less, and it hasn’t done that.”
- On the World: “By running inappropriate large surpluses, Germany is hurting growth and employment in the world at large. Germans may find this incomprehensible, but it’s just macroeconomics 101.”

# Has Krugman ever written about German demographics?

- Fundamental misunderstanding about German growth potential
  - “Phantom Giant”
  - The closer you get, the smaller he becomes
  - Big difference between per capita perspective and aggregate perspective
- Back of the envelope calculation
  - We can quite solidly project labour force developments until 2060
  - We can make an assumption about the growth contribution per worker
  - So at constantly rising GDP per worker (or per capita) we can project aggregate real GDP
  - e.g. per worker growth of 1.13% per year based on the average 1992-2008
- Result: mediocre German aggregate GDP growth
  - At per worker growth of 1.13, average aggregate annual real growth until 2060 = 0.28 %

# An extrapolation of aggregate German GDP growth

Past and extrapolated aggregate GDP-growth in Germany based on constant GDP-growth contribution per worker (here: 1.2% = average 1992-2010, own calculations)

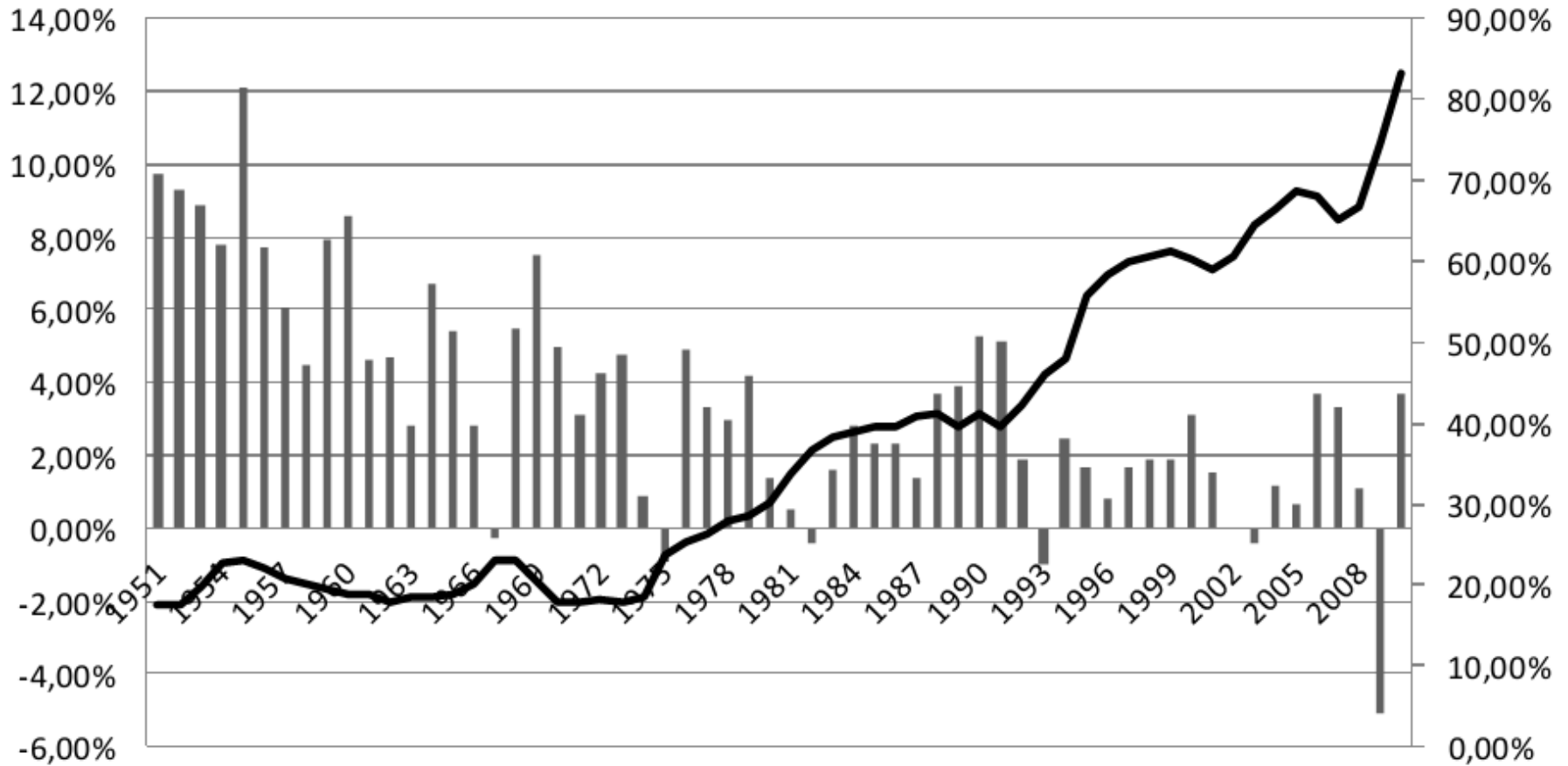


## Implications for fiscal policy

- Stagnation in aggregate GDP = stagnation in aggregate tax receipts
  - or: tax increases / spending cuts
- Large shares of public expenditure not “per capita”
  - Lower aggregate GDP growth leads to lower aggregate tax receipts
  - Expenditures will not fall proportionally
- In addition: general expenditure increase from ageing population
  - Phenomenon well-known and widely discussed
- Result: Double whammy!
  - Rising expenditure
  - Falling income
  - Perhaps rising interest rates on top (triple whammy)
- And all this at “normal” growth rates

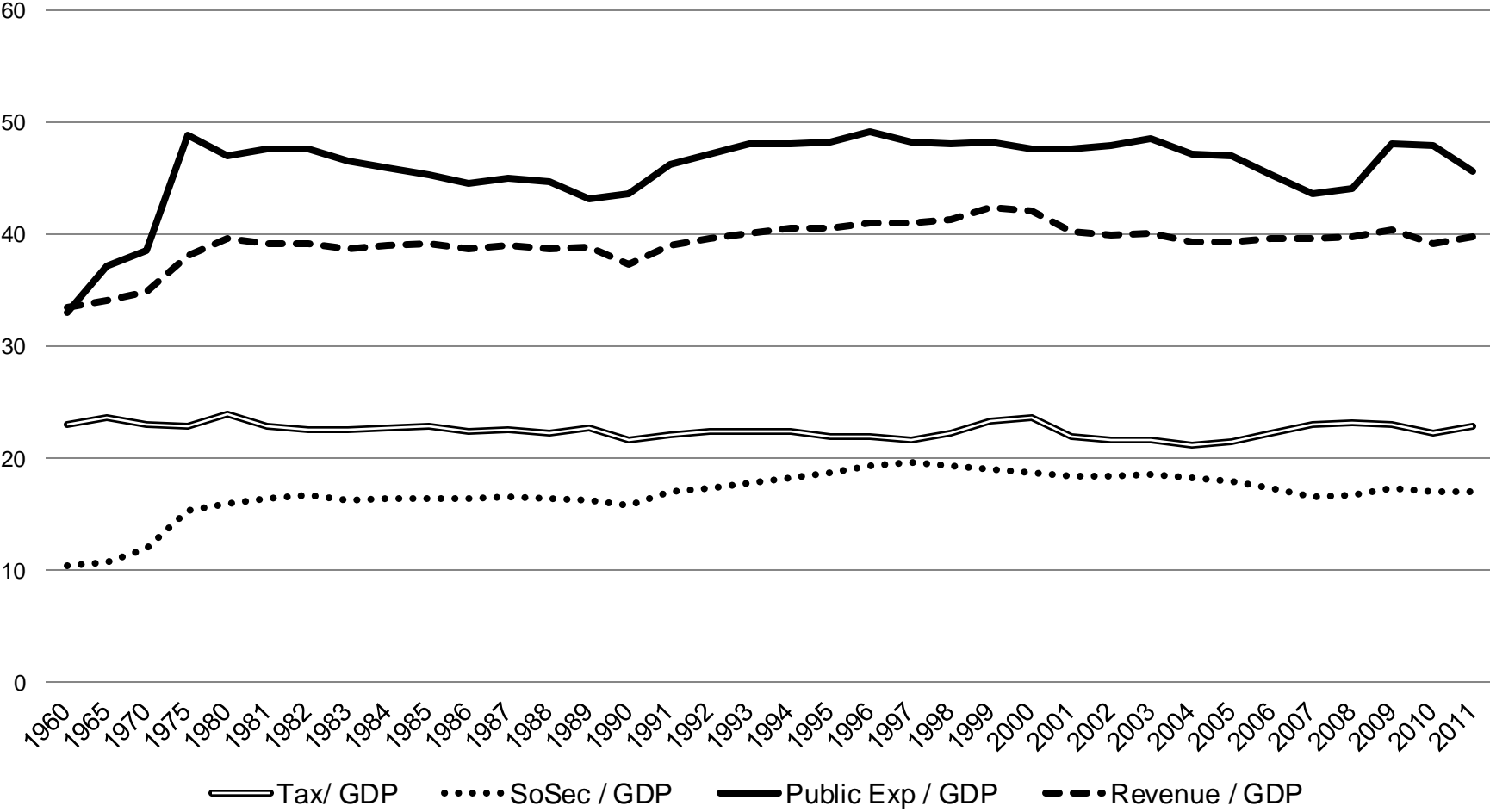
# German debt and German growth rates

Aggregate Growth rates (left hand) and debt to GDP (right hand), own calculations



# This is a challenge for German public finances

Public revenue and expenditure (% of GDP), own calculations



# What can be done?

- Allow for more immigration
  - Yes – complete the European labour market!
  - But: political resistance is high, is Germany ready for this?
- Increase participation rates
  - Yes – do more for female employment; think further about retirement age
  - But: political resistance is high, is Germany ready for this?
- Increase productivity
  - Yes – this is always the best idea
  - But: German education and infrastructure spending has been very low
- In sum: a decrease in German debt levels is prudent
  - At the same time: investments need to go up
  - Retirement age debate not over
  - Migration policy is key: German needs to open-up culturally
  - Female participation is key