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Conservative media attribute German economic growth to spending cuts that have not yet begun

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Conservative media have falsely suggested that Germany's fiscal austerity policies spurred that country's recent economic growth, at times arguing that the United States should therefore have cut spending instead of borrowing to stimulate the economy. In fact, Germany -- which launched stimulus spending and increased the deficit in response to the recession -- has not yet implemented its planned cuts, and economists say Germany's recent improvement is largely due to conditions favorable to its export-based economy.

German economy saw record growth in second quarter

German economy took unexpectedly large upswing in second quarter of 2010. An August 13 Associated Press **article** reported that after a 4.9 percent downturn in the German economy in 2009, significant growth occurred in the first half of 2010. First-quarter growth of .5 percent was succeeded by second-quarter growth of 2.2 percent (an annual rate of almost 9 percent), which, according to the AP, is "the fastest pace since reunification two decades ago." Germany's federal statistical office credited foreign trade and spending by government and households, according to AP.

Conservatives suggest growth the result of spending cuts

Barnes: Germany "cut spending and cut their deficit" and got "9 percent growth." Discussing the economic recovery with host Bret Baier on the August 30 **edition** of *Special Report*, *Weekly Standard* editor Fred Barnes attributed Germany's second-quarter growth to cutting "spending and ... their deficit." Barnes also stated:

> BARNES: We know what Germany did. What Germany did was reduce their unemployment benefits for one thing; they cut spending and cut their deficit and they loosened up on the labor market -- on hiring and firing and so on -- which could be very strict in Europe.
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> And what happened? In the second quarter -- 9 percent growth. Unemployment is down to I think 7.6 percent. And compare that to the Obama administration that did the opposite of all of those things. And what do we get here -- 9.5 percent unemployment, 1.6 percent of growth.

NewsBusters: "Germany's fiscally responsible approach to the financial crisis has worked out much better than Obama's spending binge." In an August 29 **post**, NewsBusters' Noel Sheppard responded to Richard Haass' statement that Germany is "growing now, in part because they are carrying out economic policies of some responsibility and some restraint" by writing:

> Indeed. As NewsBusters reported Friday, even New York Times columnist David Brooks understands that Germany's fiscally responsible approach to the financial crisis has worked out much better than Obama's

> spending binge.
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> Alas, folks like [Donna] Brazile, Paul Krugman, and Robert Reich are clinging to failed Depression Era policies that have never shown success whenever and wherever they've been tried.

Cavuto: Germany is "benefiting from cooling it on spending." On the August 13 edition of his Fox Business program (accessed via Nexis), Neil Cavuto said that France and Germany "apparently get capitalism and we do not" and claimed that they are "benefiting from cooling it on spending, and we're not benefiting because we haven't remotely cooled it on spending." After Cavuto noted that "German and French economic numbers out today look so good and ours still look so weak," Fox Business analyst Jonathan Hoenig stated that "big spending entitlement programs" can lead to "economic collapse," but since the announcement of "very painful austerity measures," the European economy and currency have "rallied."

Cato economist suggested Germany's "strict fiscal discipline" led to "robust" economic expansion. In a September 8 *Wall Street Journal* **op-ed** (subscription required), Cato Institute economist Lawrence H. White wrote that some Keynesian economists had criticized "what they regarded as Germany's overly strict fiscal discipline." White then wrote: "Yet Germany's real output expanded at a robust 9% annual rate in the second quarter, while the U.S. economy grew at an anemic 1.6% rate. So is Germany now a role model for how to recover?" In the rest of his op-ed, White detailed Germany's post-WWII price control deregulation and suggested that it is a "useful model" for current German Finance Minister Wolfgang Schaüble, who is preoccupied with "the implications of excessive deficits and the dangers of high inflation."

But Germany has not yet implemented its austerity policies -- and it did use stimulus spending

Bloomberg: German austerity program begins in 2011. In an August 13 article, Bloomberg **reported**:

> German Chancellor Angela Merkel's Cabinet in June approved levies on banks, air travel and nuclear-power plants as part of what she called an "unprecedented" round of budget cuts, rejecting U.S. calls to spur growth. The program, a mixture of spending cuts and revenue-raising steps, amounts to 81.6 billion euros ($105.1 billion) from 2011 through 2014.

Krugman: "Germany's austerity policies have not yet begun." Nobel Prize-winning economist Paul Krugman **wrote** in an August 24 blog post that it's "foolish" to hold "Germany up as proof that austerity is good," partly because "Germany's austerity policies have not yet begun -- up to this point they've actually been quite Keynesian."

Austerity program will include new taxes. Contrary to the suggestion that Germany's austerity measures only include spending cuts, *The Wall Street Journal* **reported** in a September 1 article that the set of measures aimed at reducing German deficit, approved in late August, included a tax on passenger air travel. In addition, the government is reportedly considering adding a tax on nuclear-fuel rods estimated to be worth 2.3 billion euros annually.

***The Economist*'s Avent: Germany's stimulus spending "was quite large by developed nation standards."** In an August 30 **post** on *The Economist*'s Free Exchange blog, economics editor Ryan Avent wrote that "Germany's stimulus spending was smaller than America's, but it was quite large by developed nation standards." He continued:

> Germany is one of the few euro zone countries to *increase* its budget deficit from 2009 to 2010. And planned 2011 cuts are quite small relative to those in countries pursuing crash austerity programmes, which are also suffering very weak recoveries (Greece has yet to get out of recession, and Spain may be heading back in).
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> This doesn't mean that stimulus is the key to German success. But Germany is absolutely *not* an example of strong growth despite austerity.

German stimulus included "cash for clunkers" program and another that paid companies to retain workers. According to the **Brookings Institution**, Germany passed two stimulus packages -- the first in November 2008 and a second, larger one in January 2009. The total package amounted to approximately $130.4 billion, 3.4 percent of Germany's 2008 GDP, and included tax cuts, as well as spending on public infrastructure and a program similar to the U.S.' "cash for clunkers" program. Germany's Spiegel Online **reported** that the stimulus "helped Germany's substantial auto supplies industry to offset the sharp decline of the previous year with shipments to those foreign automakers benefiting directly from the scrapping premium." Spiegel also described the "short-time working program" through which the government subsidized companies who chose to reduce employees' hours rather than lay them off. In a *Guardian* op-ed, Center for Economic and Policy Research co-director Mark Weisbrot also **wrote** that this program "saved hundreds of thousands of jobs in Germany," keeping its unemployment rate "at or below pre-recession levels."

Economist Mark Weisbrot: The "Germans definitely did not cut their budget deficit during recession." In his August 30 *Guardian* **op-ed**, Weisbrot explained that, thus far, Germany's recovery formula "has not included pro-cyclical policies -- fiscal tightening when the economy is contracting or barely growing." He further wrote that "the latest budget figures released this week show that Germany's budget deficit for the first half of this year has doubled as compared to one year ago. At 3.5% of GDP, it is still lower than that of many other European countries. But the Germans definitely did not cut their budget deficit during recession."

German budget deficit has doubled since same time last year. The *International Business Times* reported on August 24 that Germany's deficit spending has "spike[d]" because of its stimulus package. According to the ***Times***, which cited Germany's Federal Statistical Office as its source, "net borrowing for the first six months of the year amounted to 42.8 billion euros -- more than double the 18.7 billion euro figure from a year ago." That amounts to a deficit that is 3.5 percent of GDP, compared with Germany's 2009 first-half deficit of 1.5 percent. The *Times* noted that the European Union forbids deficits of more than 3 percent of GDP.

German growth attributed to export economy and weak euro

Germany is benefiting from increasing global demand and a weak euro that makes its exports more competitive. The August 13 Bloomberg article **explained** that the German economy "is benefiting from a recovery in global demand after last year's recession just as the euro's 10 percent decline against the dollar this year makes its exports more competitive outside the region." On August 14, *The Wall Street Journal* **reported** that German growth in the second quarter "was spurred by exports of equipment and autos to Asia and other emerging markets, as well as investment" and the resumption of construction projects delayed by Germany's harsh winter.

The article also reported: "The weaker euro -- which lost about 15% against the dollar as the crisis unfolded between December and June -- boosted German exports, while investors seeking the safety of German bonds drove borrowing costs lower, making it cheaper for companies to invest." Agence France Presse further **reported** that Germany was "particularly well-placed to cash in" on the "strong demand for imports in emerging markets, notably Asia" that is driving European economic growth.

Weisbrot: German growth "was driven mostly by exports." In his *Guardian* op-ed, Weisbrot also wrote that Germany's "record second quarter growth -- 2.2% over the previous quarter, or 9% at an annual rate -- was driven mostly by exports, which grew 8.2% over the previous quarter, or 37% annualised. As the South Centre has noted, for 2002-2007, exports accounted for 143% of Germany's growth -- meaning that the German economy would have actually contracted over these years if not for export growth."

Krugman: Germany decline and recovery due to export-oriented economy. In his August 24 **post**, Krugman further wrote:

> Basically, here's the German story: it's an economy that didn't have a housing bubble, so it wasn't caught up directly in the bust. But it's very export-oriented, with a focus on durable manufactured goods. Demand for these goods plunged in the early stages of the crisis -- so that Germany, remarkably, had a bigger GDP decline than the bubble economies -- but has bounced back since summer 2009. This has pulled Germany back up; exports to China have done especially well.
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> If there's a slam-dunk argument for austerity in there, it's remarkably well hidden.

FT **columnist: "Germany is recovering faster this year because it contracted faster last year."** In his August 29 *Financial Times* **column** (registration required), Wolfgang Münchau wrote that "it is important to keep some perspective and not draw false inferences from the 9 per cent annualised growth rate during the second quarter" in Germany. He continued:

> If you look at the period since the beginning of the financial crisis, Germany's economic performance has been dismal. If you compare levels of gross domestic product between Germany and the US since the crisis, you find the US significantly outperformed Germany during that period. That situation may still be reversed if the US were to go into a double-dip recession. But the best judgment we can make now is that of Christine Lagarde, the French finance minister, in her recent interview in the Financial Times: Germany is recovering faster this year because it contracted faster last year, when GDP fell by 5 per cent. So far, this looks like classic dead-cat bounce.

McKeown: "German recovery will weaken as global demand slows and its own fiscal consolidation begins next year." Economist Jennifer McKeown **reportedly** said that the "German recovery will weaken as global demand slows and its own fiscal consolidation begins next year." BBC News also **reported** that Carsten Brzeski of ING Financial Markets said, "Looking ahead, it is almost needless to say that the current growth momentum is hardly sustainable in the coming months. With the one-off impact from the construction sector and normalising of export growth, German growth will return to more ordinary numbers."

Reuters: "Many economists" expect pace of German growth to slow again. In an August 13 **article**, Reuters reported: "Many economists were surprised by the size of the surge but expect the pace to slow again in the second half of 2010 and beyond, when austerity measures in Germany and several weaker economies could lead to a deceleration, especially if some slowing in China lowers Asian demand for European goods."

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