

Free research paper on germany and austerity program

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Abstract

Germany has been a model economy for the Euro zone with its fiscal frugality which has maintained the country on an impressive growth while the other European countries were struggling with debt crisis. However, despite a favorable GDP growth and low unemployment, the country is facing challenges with high inflation. The current situation is a result of combination of both poor decision making and market sentiments in the region. In addition, the country's greatest debt is in the hands of the financials and non financial corporations with each having 87% of the debt while government holds 83%. In relation to the Austerity measures, deficit is the crucial factor as the measures seeks to ensure balanced budget by cutting down the government spending hence avoiding deficit budgets. In terms of measures recommended by various stakeholders, the Germany government advocates Austerity measures while the opposition recommends measures that stimulate the economy and prioritizes jobs creation with increased spending that is moderated by high government revenue. On the other hand, European leaders recommend measures that seek to stimulate economy to accompany the budget slashing. Finally, the Germany's situation with application of Austerity measures is likely to result to low income with wage earners suffering most. The situation would also result into long-term unemployment and low competitiveness of Germany's goods in the international market with withdrawal of business subsidies that enhances their competitiveness. To address the problem with alternative fair measures, increased spending accompanied by fair taxation to keep the government revenue high is recommended. This would ensure that the

increased spending would be moderated by the revenue hence address the debt and deficit problems.

Introduction

Germany has been a model economy in the Euro zone with its impressive performance since the region was faced by debt crisis. However, a combination of internal and market factors are causing challenges for the country forcing it to adopt the Austerity measures. In that respect, this analysis seeks to analyze the country's situation and the Austerity programs proposed. To begin with, the analysis identifies the country's current situation citing trends for the key economic indicators over a period of five years. The analysis also differentiates debt and deficit citing the one which is critical to the Austerity program while identifying the largest holders of the country's debt. In addition, the recommendations made by various stakeholders including the Germany government, opposition, Euro leaders, IMF and Central banks are identified. There is also an explanation of the Germans reaction to the proposed Austerity package as the analysis finally predicts the possible results of the country's situation recommending fairer alternatives to the Austerity measures.

Body

- Germany's current situation

The implementation of Austerity measures in Europe resulted into a recession in 2010/2011. However, Germany's economy continued with growth over the years 2011 and 2012 and although the Germany government has been known as a great advocate of Austerity measures, it

has at times increased its expenditure but its growing revenue has worked to moderate the deficit unlike in many other European countries. In addition, Germany was able to maintain growing revenue to moderate expenditure increase as it never sought to stimulate its economy through tax cuts becoming a model of fiscal prudence which moderates deficits by keeping revenues high. (European Commission, 2013a)

Germany is also the largest economy in Euro zone with a growing economy and low unemployment. The country was able to pull itself out of the global financial crisis and has maintained a booming economy and advocates Austerity measures for the peripheral economies in Europe. However, the country is currently experiencing high inflation due to its bid to aid the peripheral economies and having its economy currently stalling with stagnated industry sales and reduced foreign demand for its products. (Guajardo, Daniel & Andrea, 2011)

- Five year trends

Source: European Commission, 2012 & Federal statistics office, 2013.

GDP: Germany's GDP has had a continued growth for five years from the year 2008's GDP of 2, 473. 80 billion Euros to the 2012's GDP of 2, 643. 90 billion with only a slight fall in 2009. This shows that the economy has been able to wither fiscal challenges to maintain a suitable growth.

Unemployment: Germany's unemployment rate has been decreasing from the years 2008's rate of 7. 8% to the 2011 rate of 6. 0%.

Inflation: Inflation has been rising in Germany since the year 2009 to the current rate which shows a rising cost of living in the economy.

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National debt: Germany has increased its debt as a ratio of GDP from the 2008's 66. 8% to the 2012's 81. 7%.

National deficit: Germany has had a budget deficit that was at its highest in 2010's figure of 4. 1% of the country's GDP.

HICP: For Germany's HICP for the period from January 2012 to January 2013, the figures were as follows: 2. 1, 2. 2, 2. 4, 2. 0, 2. 0, 1. 7, 1. 7, 2. 1, 2. 1, 2. 1, 2. 2, 1. 8 and 1. 7. This indicates a relatively declining consumer prices in 2013 as compared to a high of 2. 4 in March 2012. (European Commission, 2013b)

- Debt vs. deficit and Austerity

Debt refers to the amount that a government borrows to sustain its expenditure in the case where its spending are in excess of its revenue while deficit is the excess of budget spending above the available revenue. In relation to Austerity, deficit is more critical as the measures are sought to directly control the government spending hence the deficit by cutting on the expenditure. (European Commission, 2013b)

- How Germany got into the current situation

For Germany, being in the current financial and fiscal crisis is both by bad luck and poor choices. When a common European currency was created in 1992, the control of Banking, Finance and Fiscal policy was left in hands of national governments; a system that succeeded in generating massive economic growth in Germany and Euro zone. However, the massive buying of the sub-prime loans system in US by the European Banking including Germany was one cause of the problem as the Germany's banks kept on buying on the US system even when the sub-prime market was collapsing in

2007. On the other hand, the inability of the other European peripheral countries to deal with the financial crisis resulted to the problem's spill over to the German's economy. This has negatively affected the country as it seeks to aid the economies out of the situation sometimes paying higher prices in terms of inflation. (European Commission, 2013a)

- Who holds most of the debt

With its total current debt as a percentage of GDP at 278%, Germany's non financial corporations and financials are the greatest holders of the debt with 87% each while the government's debt is 83%. On the other hand, household's debt stands at 49%. This means that the largest holders of the Germany's debt are Financials and non financial Corporations followed by the government while households are the least debt ridden. (European Commission, 2012)

- Recommended steps:

Finding a solution to the fiscal challenge facing Germany and other European countries has resulted to various remedies being fronted by different stakeholders ranging from the governments to the lenders and other European leaders. For Germany, the following has been recommended.

Germany government

The Germany's government in the leadership of Angela Markelel under the conservative Christians Democrat has since 2005 been adamantly insistent of Austerity programs. For instance, there was a proposed budget cut in 2009 in a bid to reduce the budget deficit by 80 billion Euros to a 3% of the GDP by 2014. The proposal involved reduction on welfare spending over a

period of four years as well as raising taxes on nuclear plants operators and air travel. There was also a proposed cut on public sector payroll to a tune of 15, 000 by the year 2014 as well as a reduction on military spending by cutting the armed services by up to 40, 000 troops. In addition, the Germany government advocates the fiscal compact in which all the European countries are meant to maintain balanced budgets in order to stabilize the region's economy. (Pietras, 2009)

Opposition

German's opposition has been against Austerity measures and in alternative recommending increased efforts to create jobs and spur economic growth in Germany and Europe as a whole by increasing government spending but retaining high government revenue. (Boston, 2012)

Euro leaders

European leaders are opposed to the Austerity measures and recommends implementation of fiscal policies that provide growth incentives that should accompany the budget slashing rather than the Austerity measures advocated by the Germany government. (Boston, 2012)

European Central Banks/IMF/International banking houses /lenders

The European Central Banks seek to enhance the private demand for credit by buying government debt through one to three year short maturity bonds in the secondary market. As the process lowers interest rate, the demand for private credit increases private investment hence creating the needed growth to start the economy. On the other hand IMF supports the cuts in the

spending to address the budget deficit. (European Commission, 2013b).

- Reaction to proposed Austerity package

The Austerity measures have been faced with great resistance both from within Germany and outside. The Social democrats who are Germany government's opposition are opposed to the proposed Austerity measures as well as the ratification of the Austerity fiscal package for the European countries. The possible results of the measures including reduced welfare benefits and cut on jobs are facts that Germans take into consideration in their opposition to the programs which would deny welfare benefits to those who need them most at time when it is most needed. The wage earners are also likely to be the most affected hence their great opposition for the measures. Resistance for Austerity measures has also been widely felt from other countries like Greece where there were widespread street demonstrations as people voiced their opposition to the measures. In addition, elections in Italy were highly bent on voting out the proponents of the Austerity measures and voting in those who spoke out against the measures. (Boston, 2012)

- Outcome prediction and fairer & effective alternatives recommendations

The Austerity measures are the likely to result to reduced GDP growth hence resulting to even great debt GDP ratio which will undermine Germany's ability to service its debts hence the liquidity problems being likely to escalate to more solvency crisis. The situation would also result into high unemployment as the programs advocates cutting several jobs in the civil service while the cuts on jobless benefits would negatively impacts on the welfare of the jobless. In addition, it would result to some stimulus such as

business subsidies being done away with negatively impacting on Germany's competitiveness in the international market. The situation would also result into low income in short-term while wage earners suffer most and increased long-term unemployment. (Pietras, 2009)

Alternative fairer measures would be stimulus programs which would increase government spending hence debt but with continued retention of high revenue. By keeping the GDP growing, the debt GDP ratio would remain constant without hurting the economy and its people. Another alternative to the Austerity measures would be focus on investments in public infrastructure like health and education and jobs creation which should be funded through fair and reasonable taxation. (Barron & Lynch, 1989)

Conclusion

In its capacity, Germany has been demonstrated as an economy that was able to pull out of the global crisis and sustain an impressive economic performance amid the fiscal challenges that faced the Euro zone. However, a combination of some poor decision making and the market sentiments in the region have been some of the reasons that the country is currently experiencing some challenges. In its bid to solve the problem, Germany under the leadership of Angela Markelel has proposed Austerity measures for implementation in the country and for adoption by the other European countries. However, the package is faced with a lot of opposition from within and outside the country for its possible negative effects on the economy and the people's welfare. In that respect, various stakeholders recommends alternative means that would stimulate the economy without cutting

spending on critical infrastructure like education and health. Such measures also include increased spending which is funded by fairer taxation to keeps the government revenue high for the purpose of moderating the high spending.

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