II. Germany Is Not Manipulating the Euro

BY MICHAEL HÜTHER

The charge amounts to “old wine in new bottles.”

At first glance, Clyde Prestowitz offers an exciting thesis: Germany is manipulating the euro in order to improve its own competitiveness and export performance at the expense of its partners in the eurozone. On closer inspection, however, his main arguments turn out to be old wine in new bottles. Since the beginning of the sovereign debt crisis over three years ago, it has repeatedly been argued that the current problems of the European monetary union are rooted in Germany. In this view, Germany’s high export surplus makes clear that national economic policy under the terms of a common currency is misleading. German wage moderation has damaged the other European economies. Prestowitz adds to this traditional wage policy argument the claim that the German rejection of euro bonds and an effective European Banking Authority stands at the core of its currency manipulation.

What to make of these arguments?

First of all, the fact that since 2010 we have seen very different government bond interest rates in the eurozone is no evidence of a malfunction of the single currency or even a currency manipulation. On the contrary, rate variation is logical and healthy as long as government securities in the currency union are subject to different solvency risks. The previous almost complete convergence of interest rates was wrong, misleading, and caused a significant misallocation of capital in the countries of the southern periphery. Of course, there were excesses in government bond spreads as long as the dissolution of the monetary union was a real risk for international institutional investors. The European Central Bank was able to correct these excesses by announcing the OMT program last summer, so that interest rates again reflect reasonable and fair market valuations—assuming that the currency union continues.

Second, the subsidizing of German exports by the euro exchange rate is of far less importance than has always been claimed. Rather, the global investment boom that began more than a decade ago favored economies that produce capital goods. The German trade and current account surplus thus results mainly from the sale of capital goods, which in turn stems from Germany’s traditional emphasis

Michael Hüther is Director of the Cologne Institute for Economic Research.
The subsidizing of German exports by the euro exchange rate is of far less importance than claimed. Rather, the global investment boom favored economies that produce capital goods.

The German government is not against effective European banking supervision.

Criticism of Germany’s export strength is also misleading.