

France is hardly in a position to be giving lessons in budget management, with a constantly growing deficit that is set to reach at least

Germany's major economic error is taking all of Europe down with it

5.6% of GDP this year. This is all the more unsatisfactory given France's very mediocre economic performance and the deteriorating quality of public services.

COLUMN

Eric Albert

time it is because it is making the opposite mistake. Rarely has the argument for a major stimulus plan been so clear. Germany is a country in stagnation, with a

F structurally weakened economic model but healthy public finances (a projected deficit of 1.9% this year and debt at 63%). It's a textbook case for increasing public spending.

Despite a stagnant economy and healthy public finances, Germany refuses to increase public spending, with consequences for the entire eurozone, writes Eric Albert.

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Politically, however, this is out of the question. Finance Minister Christian Lindner (FDP) refuses to loosen the purse strings. And he has the constitution on his side: In 2009, Germany made the regrettable mistake of establishing the requirement of a near-balanced budget, with a maximum structural deficit of 0.35% of GDP (except in the event of a recession), into its supreme law. The government tried to circumvent the rule by creating separate funds, notably for the green energy transition. The constitutional court blocked this approach in November 2023. The situation is deadlocked and a two-thirds majority in Parliament would be necessary in order to remove the debt brake rule. This is impossible given the current state of political forces.

Decline in imports

"It is a historic mistake," said Isabella Weber, an economist at the University of Massachusetts. "Germany's fiscal stance has played a key role in the country's poor recovery [after the pandemic]." Since the fourth quarter of 2019, German growth has been non-existent: just 0.3%, well behind France (3.8%), and even further behind the US (9.4%).

The absence of a stimulus plan is all the more damaging given that Germany's economic crisis is not

temporary. "Some factors are temporary, of course, but growth has been flat since 2018, productivity growth is bad, demography declines and there is massive under-investment in private and public sectors," noted Nils Redeker, the deputy director of the [Jacques-Delors Center](#), a Berlin-based think tank. Added to this is the fact that key sectors are doing badly, particularly the automotive industry, which is struggling with a difficult transition to electric vehicles.

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The problem is that this major economic error is taking all of Europe down with it. "Germany is the industrial base of Europe," said Redeker. If it weakens, the entire continent will suffer the consequences. What's more, Germany's trade surplus is less and less a sign of competitiveness and more and more proof of a decline in its imports. In short, Germany is "under-consuming."

"When Germany as the largest economy in Europe sticks to austerity, it also harms the rest of the Union with a lack of demand," said Weber.

'Doesn't make sense'

Berlin is blocking possible progress within the EU. During the pandemic, Angela Merkel did approve a common European loan of €750 billion, which was a first, representing an essential step in the budgetary alignment of eurozone countries. But it was only possible because the former chancellor was in her last term of office and because the pandemic was an extraordinary situation. Today, the ruling coalition won't even entertain the idea of doing it again.

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Legislative elections must be held within the next year. Redeker believes that the budget issue will be one of the key debates of the campaign. "There's a large consensus among economists that the debt brake does not make sense."

Meanwhile, the fiscal mistake continues: According to the [Kiel Institute for the World Economy](#), a think tank, German GDP is set to shrink by 0.1% in 2024, contracting for the second year in a row.

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