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US Attacks Germany's Economic Policies. Washington Views with Growing Alarm the Emergence of Germany as the Economic Powerhouse of Europe

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The US Treasury Department provocatively denounced Germany's economic policies in its semiannual report on international exchange rates, released on Thursday. The report has further inflamed relations already strained by revelations that the US has been spying on the communications of German Chancellor Angela Merkel.

The report blasted Germany's export-led growth strategy and said German policies were leading to deflation in the European and global economy. It declared, "Germany's anemic pace of domestic demand growth and dependence on exports have hampered rebalancing at a time when many other euro-area countries have been under severe pressure to curb demand and compress imports in order to promote adjustment …

> "Within the euro area, countries with large and persistent surpluses need to take action to boost domestic demand growth and shrink their surpluses. The net result has been a deflationary bias for the euro area, as well as for the world economy."

The Treasury report added, "Germany has maintained a large current account surplus throughout the euro area financial crisis, and in 2012, Germany's nominal current account surplus was larger than that of China."

The Treasury department had previously focused its attention on calls for China to allow its currency to appreciate. The decision to prominently and aggressively criticize Germany's economic policies marks a significant escalation of tensions between the two countries.

The German Finance Ministry fired back that its exports are "no cause for concern, neither for Germany, nor for the euro zone, or the global economy." It added, "There are no imbalances in Germany that need correction. On the contrary, the innovative German economy contributes significantly to global growth through exports and the import of components for finished products."

The growing international tensions between the US and Germany come amid an economic slump on both sides of the Atlantic, accompanied by a significant fall in inflation. The same day the Treasury Department released its report, the European Union's statistics office reported that inflation in the euro area fell by 0.7 percent in October, the lowest level in four years, while the unemployment rate remained at a record high of 12.2 percent.

The US economy added 148,000 jobs in September, less than the number expected by economists, according to the latest jobs report by the Labor Department. So far, the second half of 2013 has averaged 143,000 new jobs per month, compared to an average of 195,000 for the first half of the year, pointing to an economic slowdown. Over the past twelve months, US consumer prices have risen only 1.2 percent, compared to the Federal Reserve's nominal target of 2 percent.

In an editorial Friday, the *New York Times* responded enthusiastically to the broadside against Germany, praising the report for breaking from tradition "by offering some blunt and much-needed perspective about the German economy."

> "Germany, the biggest economy in the euro zone, has long been a major contributor to imbalances in the global economy," the *Times* asserted. "It exports far more than it imports and does too little to encourage the growth of domestic demand."

The *Times* lectured Germany about the need to expand domestic demand without mentioning that the US government that very day had slashed food stamp benefits for tens of millions of the poorest and most vulnerable members of society, and was preparing to cut off extended unemployment benefits at the end of the year.

"For starters," the *Times* wrote, "the government can borrow and spend more to help boost investment. It could also cut taxes on lower-income Germans to increase consumer spending."

The article added that Germany "could encourage more births by improving access to child care and providing other benefits." Again, the *Times* evidently did not feel constrained by the virtual absence of child care benefits in the United States, or by cuts in the Head Start program as a result of the "sequester" budget cuts.

The escalation of tensions between Germany and the US is bound up with the deepening of the economic and financial crisis that began in 2008. Economic growth in Europe and the US remains negligible, while much of the developing world, including Asia, is experiencing a significant slowdown.

But even the low levels of growth are dependent on the vast amounts of cash being printed by the world's central banks, led by the Federal Reserve. In recent years, significant differences have emerged between Germany on the one hand and the US, Britain, France and the International Monetary Fund on the other, with the latter favoring more stimulative monetary policies and Germany resisting such a course.

In the aftermath of the 2008 crisis, the watchword in capitalist government and banking circles was "global economic rebalancing." But this was interpreted in diametrically opposite ways by deficit countries, led by the US, and surplus countries such as China and Germany. In the name of rebalancing, the US demanded that countries with large trade and current account surpluses rein in their exports and do more to increase domestic consumption—moves that would, not accidentally, favor US exporters. Germany, on the other hand, insisted that the key to rebalancing was for the US and other deficit countries to rein in their spending and cut their deficits and debt burdens.

Under conditions where the global economy remains depressed, with little prospect for improvement, countries are increasingly drawn into a competitive battle for control of stagnant or shrinking international markets. At the same time, Washington views with growing alarm the emergence of Germany as the economic powerhouse of Europe and the dominant voice in European economic policy.
