

# Germany's "Dr.No" Could Teach Britain a Lesson

Retrieved Monday 9th of October 2017 08:06:40 PM

Politicians are odd creatures. They have a unique perception of time.

Any failures are the responsibility of the previous fellow. Any success is their own to claim.

When their tenure ends, they disappear like a thief into the night to hide from being blamed for the coming calamity they caused.

Germany's finance minister Wolfgang Schäuble is ing over to the speaker's chair in Germany's parliament. Chancellor Angela Merkel's poor run in the election means she won't get to re-pick her finance minister from her own party.

The eulogies of Schäuble's career are impressive. He was finance minister during eight very good years for Germany. His departure coincides with Germany's best monthly industrial output for six years.

And so the Germans love him. Dispassionately of course. It's a shame he can only lay claim to the more controversial policies of his time. The ones other Europeans despise him for. Schäuble was the man who reintroduced accountability into the world of bailouts.

Germany's recent boom is a rare exception to something I spoke about at our conference on Friday. The synchronisation of business cycles around the world means we aren't having the booms and busts of different nations offset each other anymore. They're no longer trade cycles like they used to be, I argued in my speech.

The event proved to be quite the success, even if a politician took the cake. Daniel Hannan systematically destroyed the objections to Brexit in an illuminating way. DVDs will be on sale soon.

## Germany's boom – a blueprint for Brexit Britain?

Back to Germany and why it's an exception. It's operating on a different business cycle to Europe. That is the secret to the country's success – timing. Which even Schäuble can't take credit for.

While southern Europe was going through its unprecedented economic boom of the 2000s, Germany was the "sick man of Europe". The Economist particularly lamented its position.

As a German schoolchild at the time, I remember a [popular song](#) which consisted entirely of newly introduced tax names to the tune of the *Ketchup Song*. The Gerhard Schröder impersonator explains in the chorus, "Voted in is voted in, you can't fire me now. That's the cool thing about democracyyyy".

While Germany wallowed and the European Central Bank (ECB) tried to revive the Mittelstand with low interest rates, the Portuguese, Irish, Italians, Greeks and Spanish partied hard on those same low interest rates. While the Germans reformed their workplace policies, the PIIGS built houses in the middle of nowhere.

Then the worm turned. Germany's reforms kicked in and the PIIGS got their reckoning. While they wallow and the ECB tries to revive them, the Germans go on an export boom of extraordinary proportions financed by negative real interest rates.

The Financial Times summarised the German boom, with the most important figure being this one: "In the seven years before the financial crisis, real German exports increased 76 per cent, compared with about 20 per cent for its peers."

Of course everyone has a different narrative of why Germany is booming now while it struggled in the 2000s. The FT profiled some of the academic explanations. While the reunification of Germany supposedly caused the poor economic performance of the 90s, the opening of Eastern Europe is what gave Germany its boom. Strange combination...

But it is clear the German companies moved their production chains to Eastern Europe, improving productivity and growing profitability. That's not exactly in line with a Brexiteer's model of economic prosperity, no matter how obviously it works.

You can take two lessons from this. Either the world is cyclical ([and therefore perfectly predictable](#)), or economic reforms and trade work and a one-size-fits-all monetary policy does not.

### What generates prosperity, and what a lack of it?

Schröder seems to be in the latter camp. Policy matters.

Notoriously grumpy, he was known as Germany's "Dr No" in the German media because of his insistence that the PIIGS reform if they want German bailout money. Given the above narrative, it's easy to see why the Germans want profligate Europeans to go through reforms like Germany had to.

But do they work? I didn't think so until I checked the numbers. In fact, I wrote that the Germans are just as bad as the rest of us until I found the chart to disprove it. German government debt to GDP is falling fast.



Austerity, Schäuble told the FT, is "strictly speaking, an Anglo-Saxon way of describing a solid financial policy which doesn't necessarily see more, or higher deficits as a good thing". Which means those arguing against austerity are arguing for unsustainable fiscal policy. That is ironic given they usually love "sustainability" anywhere else.

Schäuble also praised the reforms of French President Emmanuel Macron, which have landed the Frenchman with similar approval ratings to Donald Trump.

But on the EU, Germany's finance minister is a little more sceptical than the Frenchman.

Despite being accused of dominating Europe and benefiting most from its shared currency, the Germans have resisted integration on many matters. And they seem to be drawing the line when it comes to a shared military and finance minister.

Schäuble also warned that the problems in southern Europe are far from solved. The debt is still there, he points out. I can imagine him scrawling it on the inside of the toilet door at the German finance ministry as his parting words of wisdom.

Given all this, it's difficult to understand why Schäuble is such a europhile. He sounds like a Brexiteer.

## A German running the Treasury

I've always been known as the "resident German expert" at Southbank Investment Research and our sister company in Australia before that. But why should you care about what's going on in Germany?

First of all, it shows how we benefited from being outside the eurozone. Sharing monetary policy with the PIIGS and Germany is a recipe for disaster. It exacerbates problems instead of smoothening the business cycle. A monetary policy set for everyone is never the right one for you.

But more importantly, because Germany offers an excellent model for the likes of Brexit Britain. On the key issues, such as labour reform, trade, austerity and much more, the Germans have led the way in the last two decades. And showed how it works.

They went it alone on policy in the 90s and early 2000s. They've practiced austerity properly. They engaged in trade properly. The results are clear to see.

If our politicians can't see the connection between policy mix and the outcome, I propose making Schäuble the next secretary to HM Treasury.

Sounds outrageous. But with a German royal family, a German-born editor of *Capital & Conflict* and a Canadian of the Bank of England, it isn't as bizarre as it seems. Having a Dr No at the Treasury sounds great to me.

And while you're at it, hire Jogi Löw too.

Until next time,

Nick Hubble  
*Capital & Conflict*