Fiscal Stimulus in Germany in the Aftermath of the Great Recession

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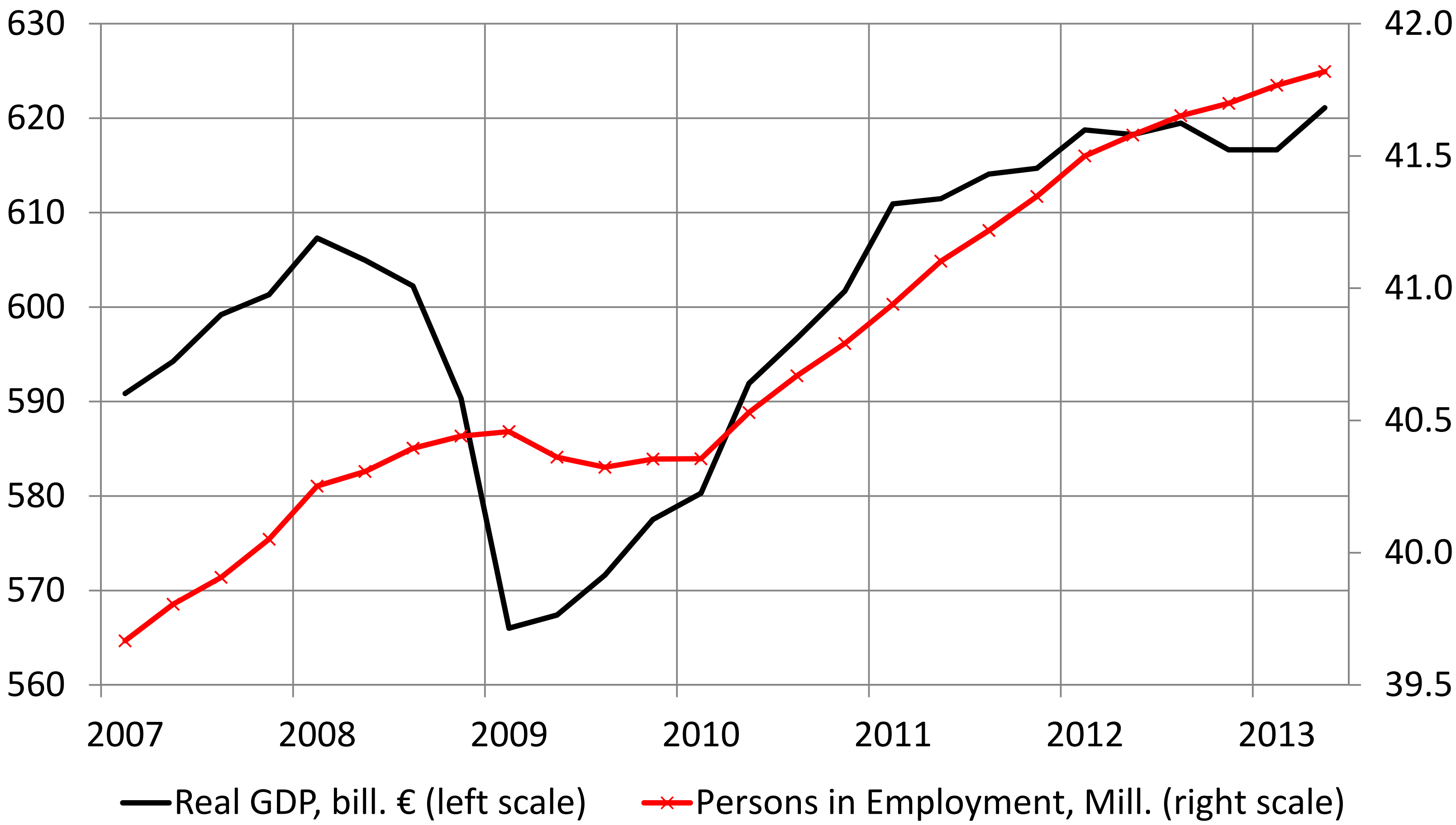
György Barabas

The German government as many other governments in the world has passed 2008/2009 different fiscal stimulus measures in order to ease the consequences of the – as later commonly called – great recession. On the Project LINK meeting in October 2009 I presented model simulations about the expected effects of the government actions in Germany. In the meantime, the measures have been nearby completely finished, and more and more reliable statistical data are available about the recession and the following recovering which could help an analysis. In this paper I focus again on the measures which can be checked by the structural econometric RWI-business cycle model. Simulations with this model show how far the model can explain the recession and the consequences of the government actions – realized partially in another timeline as initially expected – for the German economy.

The great recession hit Germany as many other countries in the Word. GDP decreased by 5.1% in 2009, a bit stronger than in average the advanced economies. However, employment did not break down and the economy recovered rapidly in the following years.

The great recession in Germany

Seasonally adjusted data



The crisis affected primary the industrial sector in Germany through the exports. Export orders could not be fulfilled, since banks could not guarantee the payment. There was a confidential break in particularly among domestic and foreign banks. In the domestic banking sector, however the impact was restricted only to a small number of banks.

There was no bubble and crisis in the housing sector.

More fiscal stimulus packages started during 2009. The biggest was the Business stimulus package II. The government amounted originally the program to € 50 billion (this corresponds 2% of the annual GDP) and hoped for the speedy effects of the measures. This program contained also many expenditure elements which can be simulated with the RWI-business cycle model.

This paper is still in progress, therefore in the following there are only shown exemplary some aspects. First I concentrate on GDP, later also on the labor market.

How far does the world trade explain the German recession?

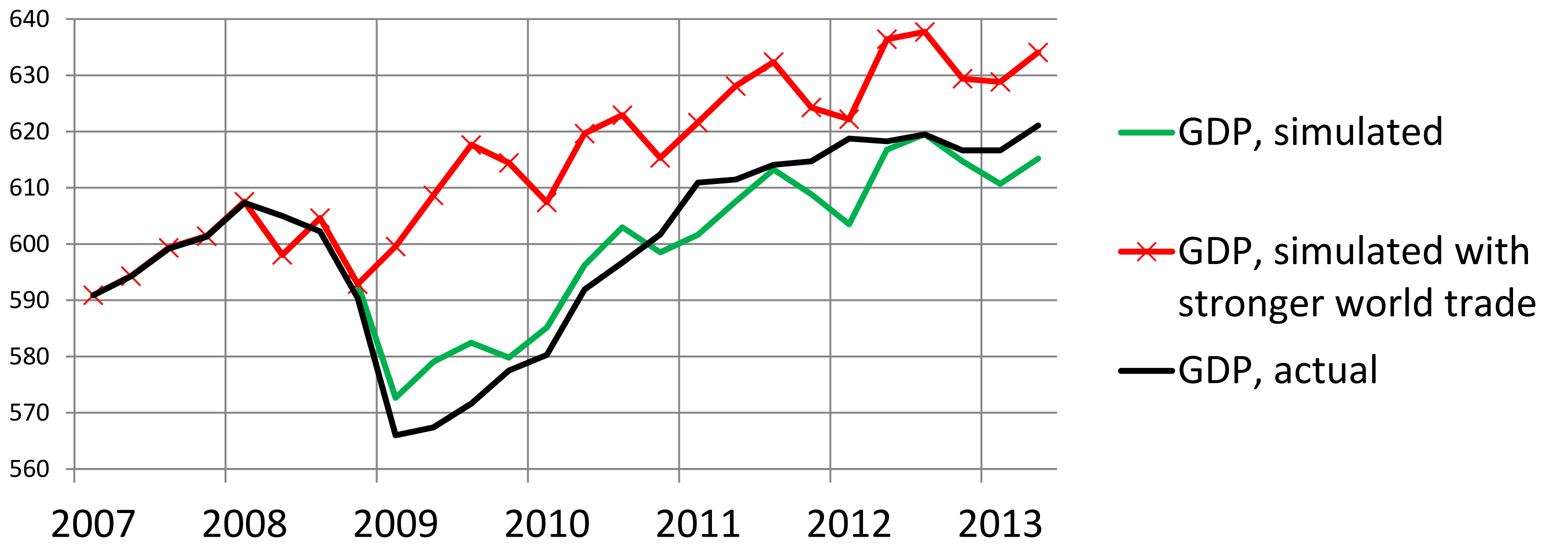
Data are now available. They effect the model parameters. Has the Business stimulus package II similar impacts as computed in autumn 2009 during the recession?

The package has been enlarged and now we can see the timeline of the expenditures. What can we learn from it?

What explains the German labor market miracle?

Recession was cased by the export

Simulation results, %yoy	2008	2009	2010	2011
World trade , actual	3.9	-12.6	15.1	7.1
GDP	1.0	-3.8	3.1	2.0
World trade, stronger	3.9	3.4	3.2	7.2
GDP	1.0	1.5	1.2	1.6
GDP difference, %-points	0.0	5.3	-2.0	-0.4



Overview of the measures

- (GDP in current prices 2008: 2474 Bill. EUR)
- October 2008: first measures (amongst others: children allowances; reducing contribution to unemployment insurance; total: euro 20 billion)
- November 2008: Economic stimulus package I (depreciation and credit benefits, tax reduction). Net effect for 2009 about euro 12 bn.
- February 2009: Economic stimulus package II euro 50 bn. (euro 18 bn. additional public investments, reduction of income tax and social insurance contributions; wreckage premium for old cars)
- May 2009: Short-time work extended to 24 month, wreckage premium extended by 3.5 billion euro

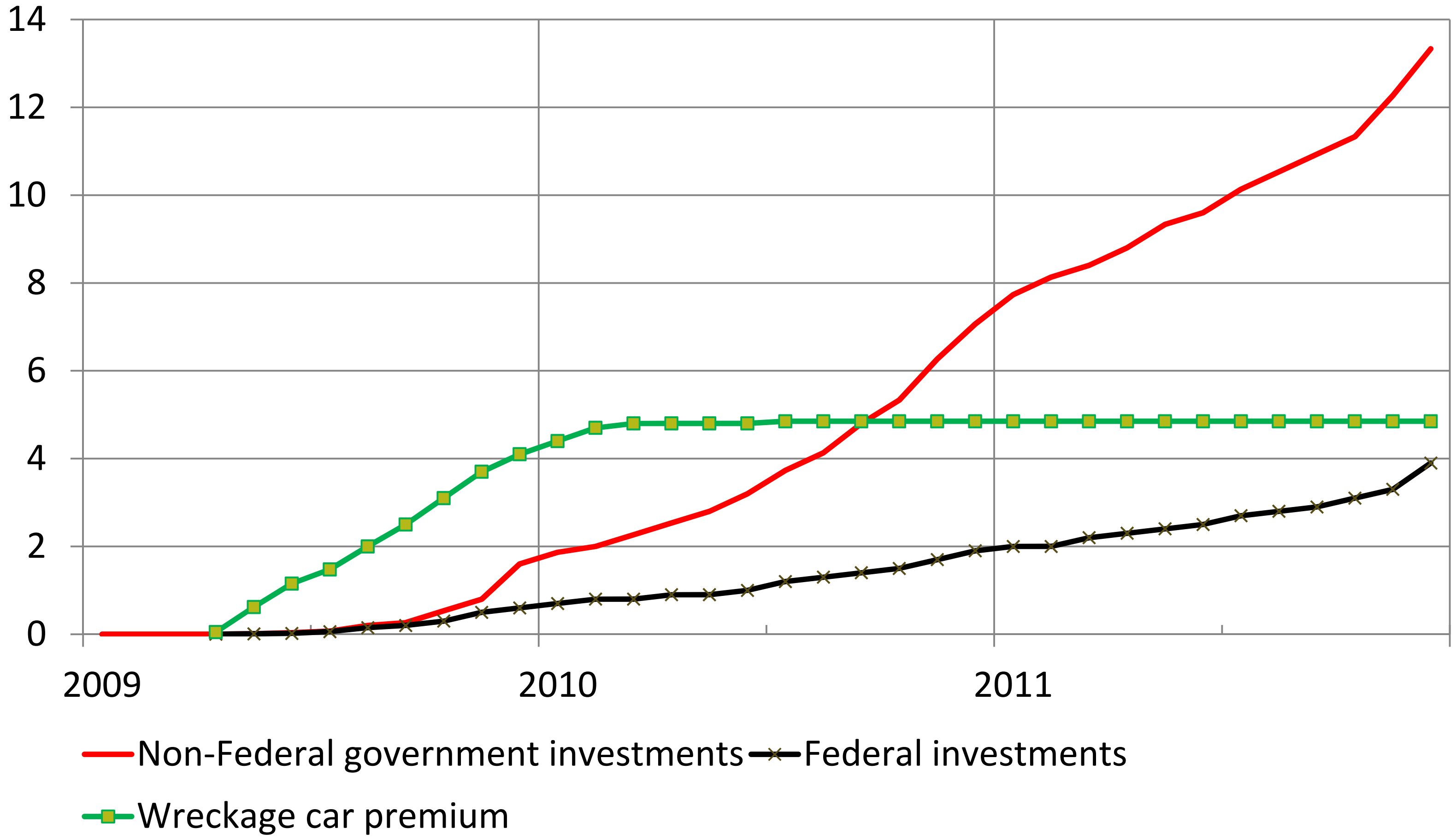
Comparing model versions (model uncertainty)

Differences to baseline (%-point, 1000 person, Bill. €)

	October 2009			October 2013		
	2009	2010	2011	2009	2010	2011
GDP	0.6	0.2	-0.5	0.5	0.4	-0.3
Employment	129	218	143	75	174	180
Labor volume	0.5	0.2	-0.4	0.4	0.2	-0.4
Government savings						
	-9	-14	-12	-11	-11	-6

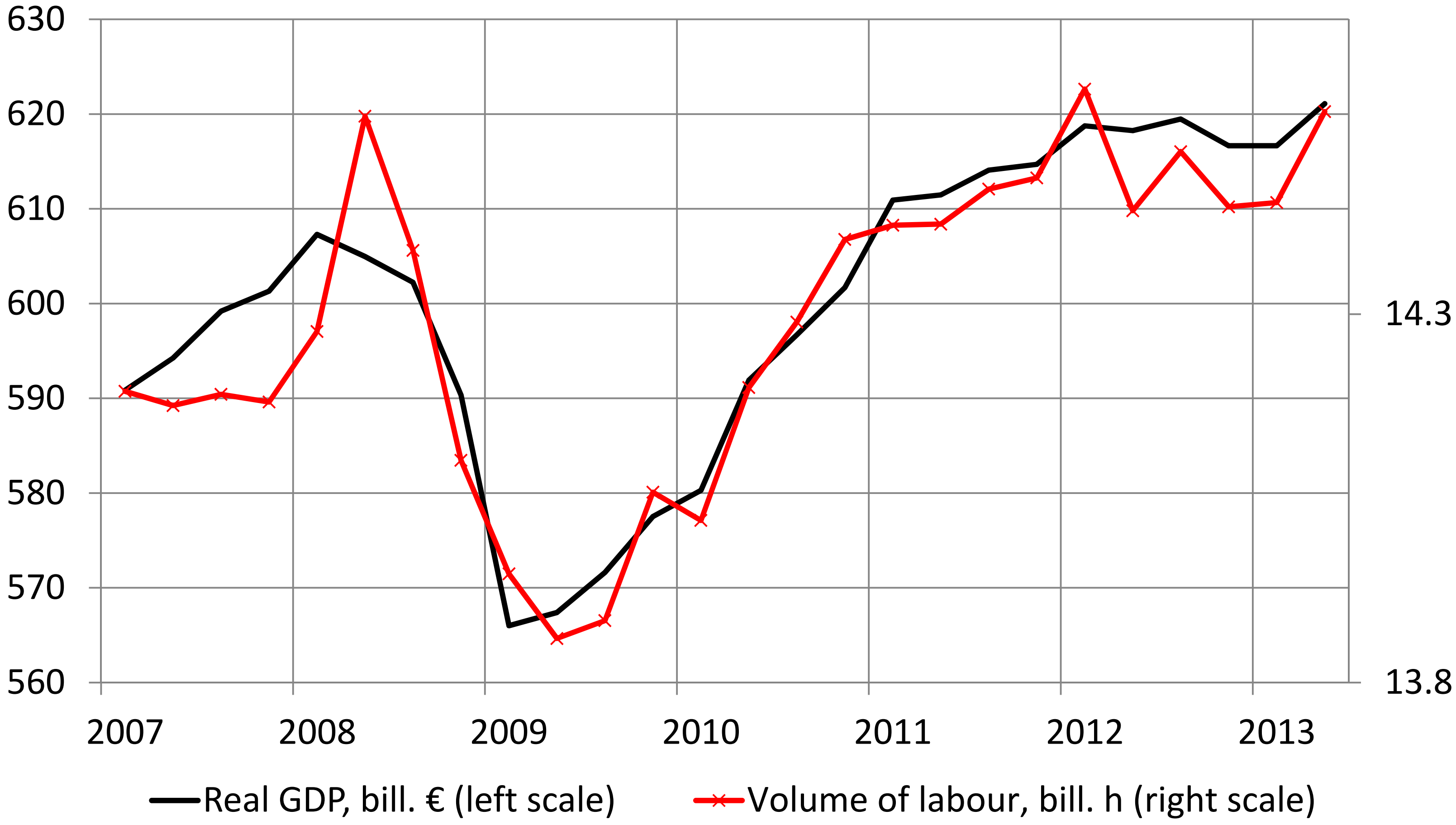
Drawing on the funds

Jan 2009 to Dec. 2011, Bill. €



Labor input without miracle

Seasonally adjusted data



Emloyees were not layed off

Short time work, 1000 persons

1991	1761	2007	68
1992	653	2008	102
1993	948	2009	1144
1994	372	2010	503
1995	199	2011	148

Fiscal package: Half of the social security contribution was taken over; if employees participated on skill trainigs, the whole contribution

Excess work time before the great recession was collected to accounts and used in the crisis

Since shortage on skilled workers preferred firms hoarding of labor force

Summary: German specifica during the great recession

- crisis mainly an export crises affecting the industry sector
- no bubble and crisis in the housing sector
- In the banking sector impact was restricted to a small number of banks
- probably, the crisis hit primarily sectors, which particularly felt the lack of skilled workers before
- earlier labor market reforms ensured in the boom stocking excess working time in working time accounts which were used during the crisis
- government subsidized short time work

Recovering from the crisis

- firms hold employment, consumption fell only moderate
- re-vitalization of world demand pulled the production fast
- extremely low interest rates stimulated private investment in construction/housing
- stimulus programs pushed government construction