

Is Germany Heading for Dexit?

Description

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After Brexit, Germany's hypothetical exit from the EU would provoke the liquidation of the Eurozone and lead to the gestation of a new European economic map with a return to national economic compartments.

The Doctrine of the “Debt Brake”

As Joel Kotkin points out in Forbes magazine, for decades “the countries of the North (Germany, Norway, Sweden, Denmark, Holland, Finland and the United Kingdom) have compensated for very low fertility rates and declining domestic demand by accepting immigrants and by creating highly productive export-oriented economies”. In line with this, Germany introduced in its Constitution in 2009 the doctrine of the ‘Schuldenbremse’ (debt brake) with the principal objective that “every generation should pay its expenses and not consume (in the form of debt) the taxes that their children will pay “.

Germany achieved successive economic surpluses in the last five years because the ECB's zero or negative interest rates required less money to pay public debt and allowed Germany to accumulate reserves, which enabled them to address the social crisis of COVID-19 with a massive investment boost estimated at €20 billion to kick-start the economy.

A traffic jam for the German locomotive

However, according to an analysis by the German Institute for Economic Research (DIW), at present Germany is burdened by the war in Ukraine and by the total cut off of the Russian gas supply, which has have already caused a contraction of about €100 billion (2.5% of GDP). This contraction cause collateral damage, pushing the economy into recession and raising the unemployment rate, combined with runaway inflation and the loss of trade surpluses.

Thus, according to **euronews.com** <<http://euronews.com/>> , the German locomotive lost steam in the fourth quarter of 2023 (negative growth of 0.3% of GDP) due to higher energy prices, reduced industrial production due to weak European demand, stagnating domestic consumption and the loss of competitiveness vis-à-vis the rest of the world — which has resulted in a severe decline of 1.2% in exports in 2023.

At the same time, ECB interest rates rose to 4.5%. That, combined with the rampant inflation of 5.9% in 2023, caused real wages to stagnate in Germany. Fiscal adjustments and cuts in agricultural subsidies have put the German countryside and the other trade unions on the warpath.

Charles Dumas (Lombard Street Research London) argues that “Returning to a cherished German mark would squeeze profits, increase productivity and raise consumers' real incomes, because instead of lending savings surpluses to peripheral countries, Germans could enjoy better living standards in

their country”.

Increase in social fracture

According to a recent EU report, 7.5 million Germans work in the low-income sector (mini-jobs), and according to the NGO Paritätischer Gesamtverband, 14% of the people in Germany (16.6% of the population) are at risk of poverty.

This, together with the high proportion of immigrants in Germany (almost 20%), will exacerbate xenophobic feelings in German society (especially among East Germans), due to the reduction in the labour supply, fierce competition for jobs, and the conversion of many outlying neighbourhoods into genuine ghettos of immigrants. Thus, a spectacular rise of ultra-right groups is foreseeable in the 2025 elections.

On the way to Dexit?

According to a survey conducted by TNS-Emnid for the weekly magazine Focus, 26% of Germans would consider supporting a party that wants to take Germany out of the euro. The rising star in the German political firmament, “Alternative for Germany” (AfD), was initially formed by academics and businessmen but it has been radicalized. It has adopted clearly xenophobic postulates, such as the possible expulsion of millions of foreign citizens, and they are considering proposing a referendum on Germany’s exit from the Euro (Dexit).

This hypothetical exit of Germany from the Euro would mean the beginning of the end for the Eurozone and the formation of a new European economic map that will mean the return to the fixed economic compartments — and the triumph of the US in achieving the Balkanization of Europe.