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The New German Government's Economic Policy: Tackling National Tasks, Not Neglecting European and Global Challenges

Regardless of which coalition wins out in the end: Germany needs a government that is capable of tackling major economic and political challenges. These challenges are broader than the issues that dominated the election campaign. The economic consequences of the coronavirus crisis, demographic change, climate change, digitalization, European integration, and geopolitical change require decisive action and a willingness to change.

Promoting Employment and Investment

The new government's economic and fiscal policies should protect the still fragile economic recovery from the coronavirus crisis and promote sustainable economic growth. Achieving growth will be harder than in the years before the coronavirus pandemic because the number of people of working age is falling as the population ages. It is therefore necessary to remove barriers to employment in the tax and transfer system. This is particularly important for people who do not earn much: for them, the unfavorable interaction of Hartz IV rules and other transfers ensures that working any more than a part-time job is often not worthwhile. A change in the taxation of spouses to real splitting and a further expansion of childcare would increase employment, especially among women. Growth also depends on public and especially private investment. In corporate taxation, accelerated depreciation and better loss offsetting could provide incentives to set up new production facilities and establish innovative companies in Germany.

Germany Needs to Catch Up in Digital Transformation

Germany has a lot of catching up to do in the digital transformation of the economy and society. This is not just a matter of expanding digital infrastructure, but also of ensuring better teaching of digital skills in schools and the digitalization of public administration. Last but not least, this includes a greater willingness to allow digital business models that challenge established interests instead of hindering them. It's not enough to want digitalization in principle, but then impose bans and regulations on companies like Uber, Airbnb, or online pharmacies.

Shaping Climate Policy Efficiently

A rethink is needed in climate policy. Some politicians rely too much on rigid sectoral targets for emission reductions and blanket prohibitions and requirements that make climate action unnecessarily expensive. This applies, for example, to the ban on

combustion engines and the obligation to install solar cells on every roof, even if the house is in the shade. It would be better to give greater priority to the carbon price and the Europe-wide system of trading emission rights, and to ensure progress on important investments in the development of infrastructure such as electric-vehicle charging points and railway lines. There is also a need to combine decarbonization with a secure electricity supply that is competitively priced to attract industry. As global warming will continue largely independently of Germany's climate policy, investments must be driven forward that aim to adapt to rising temperatures, for example better protection against flooding and storms.

Avoiding Conflicts Between Redistribution and Growth Targets

Broad participation in prosperity is a fundamental goal of economic policy. In the German election campaign, the focus was above all on demands for more redistribution through a net wealth tax. This instrument throws the conflict between growth and redistribution targets into stark relief. It would be wiser for policymakers to focus on measures that promote both inclusion and growth. First and foremost comes investment in education, but other measures include start-up assistance, the promotion of property formation among people with low incomes, for example through rent-purchase models, and an effective competition policy. Monopolies and cartels damage economic growth and exacerbate inequality.

Defending German and European Interests in the World

The topic of foreign and European policy was practically absent from the election campaign, but it plays a central role in Germany's future. A second Cold War is brewing between China and the US. To protect its interests in this environment, the EU must speak with one voice. At present, the EU's member states aren't even in a position to act effectively in their immediate neighborhood, for example vis-à-vis Russia and in the Middle East, without the help of the US. The danger this poses became clear when Donald Trump became US president. His successor Joe Biden is clearly more friendly to the Europeans, but one cannot rule out the possibility that Donald Trump or another populist will prevail in the US's next election.

The EU has interests vis-à-vis China that partly coincide with those of the US, but partly do not. For Europe, China is more important than as a partner in trade and direct investment than

for the US; this also applies to the Chinese New Silk Road project. The global dominance of the dollar in economic trade increases the EU's dependence on the US and makes the European economy vulnerable to US sanctions. The euro should be strengthened as an international reserve and transaction currency. None of this means calling transatlantic cooperation into question – it's about making Europe a partner of equals and limiting the damage that a second Donald Trump could inflict on Europe.

The next German government has the urgent task of advancing European integration in such a way that the EU can fulfill these tasks. To this end, financial resources and responsibilities need to shift from the national to the European level, and decisions at the European level need stronger democratic legitimacy.

Eurozone Needs Balance of Solidarity and Ownership

But the new German government also has the task of countering European policy initiatives when they cause harm. Currently, there is growing momentum behind calls to further soften the sovereign debt rules in the eurozone or to abolish them altogether and to make debt financing of government spending at the European level the rule. There is a danger that the costs of national failures in economic and fiscal policy will be passed on to the community. Germany has an urgent interest in developing the euro area in such a way that a sensible balance is maintained between solidarity in crisis situations on the one hand and discipline and individual responsibility on the other. Effective steps for more financial discipline and stability, such as the obligation for banks to back investments in domestic government bonds in particular with equity capital, urgently need to be put on the European policy agenda. It is high time for a political turnaround.

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