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Tax hikes are the wrong approach
by Michael Heise

The coalition negotiations are likely to be protracted and complex, but in all likelihood the coming legislative period will see a Grand Coalition under the clear leadership of CDU/CSU. Voters honored the fact that, despite the savage recession experienced by our European partners, the situation has improved in recent years: More jobs, falling unemployment, along with rising net earnings and purchasing power. Other countries take their hat off to the reforms enacted almost ten years ago in the Agenda 2010 and urge us to consume and invest more. And here at home, too, expectations are being raised. Fairness aspects such as higher pensions for long-term contributors or parents, higher wages for temporary work, statutory minimum wages, tackling old-age poverty and better nursing care are all on the list. Such expectations can only be fulfilled if Germany's economy remains on the growth path in the long term as well. That is by no means ensured. Investment in Germany is far too low, in both the public and the private sector. The capital stock is hardly growing and labor productivity is still mired at its 2007 level, while wages are rising faster than abroad.

An Agenda 2020 would be the right approach, aimed at rejuvenating, improving and expanding the physical and intellectual capital of our economy. More needs to be invested again, that was always the German economy's key to success. Public-sector investment and education spending need to be stepped up by re-jigging the budget and the conditions need to be improved to promote domestic and foreign business investment here in Germany. There is plenty of capital available but it is currently being exported, pushing our current account surpluses ever higher to the chagrin of our trading partners. If long-term savings were to be invested more in production capacity and infrastructure here at home, everyone would benefit. On the infrastructure side this requires the courage to tread new paths and overcome ideological reservations towards public-private partnerships.

By contrast, an agreement on income tax hikes would be a compromise at the expense of investment and savings. Increases in the top tax rate or the withholding tax, wealth levies or the re-introduction of income tax on capital gains and a financial transactions tax are all measures that will weigh further on the propensity to invest in Germany. Moreover, they would act as a deterrent to asset accumulation and individual retirement provision. Savers, already suffering from negative real interest rates on bank deposits or government bonds, would be squeezed still further. And on the fiscal side there is absolutely no necessity. Germany's public-sector budget is in surplus and, according to official estimates, the tax ratio is nearing record levels. In such a situation, discussing yet higher taxes is the best way to choke off the upswing.