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For a forward-looking economic policy

by Michael Heise

Record employment, rising wages and a budget surplus show that Germany is in rude economic health. Yet the current boom conceals potential pitfalls. It distorts our view of the challenges that Germany must overcome to ensure that economic success continues into the future. A declining workforce, for instance: despite the current wave of immigration, the working-age population will start falling as early as 2020. By 2050, it will be lower by six million. Society will become less prosperous as a result, unless we succeed in shaping a more efficient economy, embracing new technologies and continuing to improve the training and skills of the workforce. Investment is needed in improving production, so that fewer people can produce more. This remains a problem area. Many aspects of our public infrastructure need an overhaul and our digital infrastructure is underdeveloped. The money may well be available, but there is no way to put it quickly to productive use, because planning and management capabilities in the public sector have been shrinking for years and skilled personnel are in short supply. Given this situation, it is far from helpful that public-private partnerships have become taboo in Germany, leaving taxpayers bearing the brunt of infuriating delays and potential cost overruns in relation to infrastructure expansion.

Better conditions ought to be created for business investment, the volume of which is much greater than public-sector capital spending. Restraint in private-sector investment since the 2008 financial crisis is already feeding through into slower growth rates for capital stock and labor productivity. There is no fast-acting political solution to many of the causes of investment restraint, which include concerns over the future of the euro, the cohesion of the EU, the effects of Brexit and the uncertain consequences of new technologies. For this very reason, politicians should set their sights on the barriers to investment that they can influence directly, such as regulatory uncertainty (in energy policy, for instance), gaps in transport infrastructure or digital connectivity, the penalization in the tax system of equity-financed investment relative to leveraged spending or the obstacles faced by innovative start-ups, whose prominence in Germany is low compared to other countries. Many innovations and capital projects probably also fail due to the unavailability of skilled personnel. It follows that there is a particular need for vocational training policies that continuously raise the skill levels of the labor force. Capital and labor are complementary: neither one is effective without the other. Were both to be supported, however, Germany would become an attractive location for investment. Firms would start investing more at home again, instead of shifting in large numbers to sites abroad.

Economic policy has not been at the forefront of politics in recent years. Even in the coalition talks, it barely played a role. Instead, after the collapse of the “Jamaica” coalition, debate is focusing on redistributive measures, such as raising pensions, reducing the retirement age, and taxing high earners: less self-reliance and more state intervention in social welfare. A forward-looking economic policy, as demanded by the German Council of Economic Experts, would look different.