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Keeping Germany on track

by Michael Heise

Germany's economy has performed well in recent years. Whether it will continue on its successful track record depends on the economic policy of our next coalition government. There is a big risk that – to the detriment of taxpayers – the parties will insist on their respective spending promises to make the coalition palatable to their party members and voters.

The exploratory talks ended with an agreement to significantly increase spending. By contrast, relief for taxpayers and for social security is not a major issue. True, the solidarity surcharge will be phased out for most people over a four-year period and the tax exemption for dependent children will be raised slightly. Still, given a record-high tax-to-GDP ratio of 24%, these are only minor steps. We continue to tax progressively wage increases that are merely due to inflation which is back at close to 2%. And we continue to count people as top earners if they (as singles) earn a taxable annual of EUR 55,000. They then are charged the maximum income tax rate of 42%. Moreover, there will only be a marginal reduction in the social security contribution of 20% of gross income for the employees, because additional spending is planned, mainly on pensions.

Anyone advocating taxpayer relief in Germany is put on the spot for standing in the way of badly needed future investments in infrastructure or education. That totally ignores reality, as a glance at the past spending policies can show. Since 2012, the first year with a balanced overall budget following the crisis, total government spending has increased by no less than EUR 215 billion, despite big savings on interest expense. Only a very small portion of that went toward government investments (EUR 8 billion) or education policy. So the additional revenues were not used for "future spending", but instead mainly promoted consumption and redistribution.

A policy aimed at long-term growth would clearly prioritize investments and education, also in the field of digital technologies. It would include significant relief for lower-income and middle-income taxpayers to offset higher living expenses and it would feature a plan for making Germany a more attractive place for investments so as to prevent a large outflow of savings out of the country, which is dragging the huge current account surplus behind it. The focus would then be on important investment conditions, such as wage and ancillary payroll costs, income tax and corporate tax burdens, energy costs, the availability of skilled labor and the appropriateness of regulations and prohibitions. A policy that provides good conditions for investment is the best way to guarantee long-term growth, greater prosperity and stable social security systems.