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Keeping Germany on course for growth

The economic situation in Germany can still be described as very good. The long upward trend that set in after the financial crisis and remained rather subdued for a number of years has accelerated since the beginning of 2016 and has caused employment to rise to a record level of around 45 million people. Unemployment is far below the level in other countries and the public budget is clearly in positive shape, despite a sharp rise in spending. Germany has benefited in recent years from an acceleration in the global economy. In addition, there has been a strong influx of workers from the EU, which has expanded the supply of jobs. The high influx of asylum seekers has led to rising government spending and additional demand. But what will happen next? Global economic growth is currently losing considerable momentum and the influx of labor is ebbing away. It is therefore no wonder that the forecasts for 2018 and 2019 have been revised downwards significantly. Values of 1.6 % this year and 1.5 % next year would certainly still be favorable developments. An intensification of the trade dispute or paralyzing conflicts over the UK's withdrawal and the Italian budget could push growth even lower.

Economic policy reforms are needed to keep the economy on course for growth in an increasingly difficult environment. The German Council of Economic Experts has analyzed numerous areas of reform in its most recent Report. There is a long list of homework to be done, especially in tax policy: A complete abolition of the solidarity surcharge, which has long since ceased to be used for transfers to the eastern German states, a reduction in corporate taxes to prevent Germany from falling behind other countries as a business location, a reduction in the tax burden for lower and middle incomes, which is extremely high in Germany by international standards, and finally a reform of property tax and land transfer tax, which make the acquisition of residential property particularly difficult in times of rapidly rising property prices. There is financial room for manoeuvre. The budget surplus of the public sector in 2018 is estimated at slightly over 50 billion euros or 1.6% of GDP. Therefore, future investments would not have to suffer from tax cuts under any circumstances, as is often argued in the political arena. In view of the sharp rise in total government spending - which has risen by EUR 265 billion since 2010 (compared with just under EUR 21 billion for investments) - this objection appears to be quite preposterous anyway. The main problem appears to be that tax cuts are not foreseen in the coalition agreement. In view of significantly reduced growth prospects, however, coalition members should not allow themselves to be deterred from necessary reforms. A tax policy that increases the net income of private households and makes Germany more attractive as an investment location will strengthen growth through higher private consumer and investment spending. What is good for Germany will also help our European partners, who urgently want stronger impetus from Germany.