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SOME COMMENTS ON ECONOMIC CHALLENGES FACING GERMANY AFTER THE ELECTIONS

The federal elections in Germany have in a certain way changed the political landscape. The Debate of the elections in the media has largely focused on the AfD and the aggressive rhetoric of its leaders (actually adapted by the social democrat Leaders). This is understandable, but it is worth remembering that the AfD only represents 13 percent of German voters.‘

Much more important is to focus on the next government – probably a coalition of the conservatives, the greens and the liberals (in Germany called Jamaica coalition caused by the Colours of the Parties black (CDU/CSU), green (Green Prty) and Yellow (Liberals), equal to the colours of the Flag of Jamaica)and the challenges facing it.

In economic policy there some central issues: Digitalisation, Automation, demographic change, globalisation, climate change and European integration.

Digitalisation policy in Germany fluctuates between enthusiasm for expanding fibre optic networks and concerns over new business models from the sharing economy like Uber and Airbnb expressed in the form of in restrictive regulations. But a nationwide fibre optic rollout would be expensive and inefficient. Such infrastructure should only be built in centres where it is urgently needed. To promote digital transformation, politicians should focus on eliminating regulations that obstruct sensible digital business models and reduce burocracy and restrictive laws.

Digitalisation pushes automation of the economy and thereby the use of robots. Trade-Unions, Workers and Politicians fear that this will lead to job losses. Therefore, there are calls for the introduction of an unconditional basic income. Scientists (Fuest, C., 2017) fear that would be a capitulation to the challenges the Economy faces. The goal should be to give those individuals labour market opportunities by offering them training and future oriented education.

The demographic transformation will lead to a labour shortage that opens up enormous opportunities. Instead of seizing it, Germany fears that we no longer may need skilled labour thanks to automation. German economic history shows, that this should not be expected within a fundamental structural change.

The declining workforce in Germany due to demographics will have significant implications for public finances and for social insurance systems. A raising of the retirement age to 70 seems not to be popular. But there are very good reasons for raising the retirement age to 70. A higher retirement scheme is often denounced as unfair, because people with physically challenging jobs are unable to carry on working until the age of 70. Such health risks must be compensated with higher wages and disability insurance, and not with pension insurance. It should also be possible to take retirement early, but with corresponding markdowns.

Another important challenge is globalisation. Its effects range from refugees and poverty-induced migration to growing trade and capital flows to global
information and data exchange. Germany has benefitted from globalisation in recent decades. Internationalisation means that there is less scope for political action at a national level. This is partly because Germany is in the EU and has signed up to several international agreements. On the one hand, growing cross-border mobility means that Germany is under high competitive pressure both as a business location and in terms of taxation and social policy (Lang, F. P., 2016). Germany has an interest in companies investing in the country and creating as many highly-paid jobs as possible. At the same time, Germany stands to benefit from immigrants with above-average qualifications who earn such high income levels that they pay more in taxes than they receive in state benefits. To attract capital and qualified immigrants, Germany has to offer attractive taxation conditions. This also means that the potential for redistribution via taxation is limited.

Germany is still in a position to finance one of the world’s most developed welfare states. But the idea that the problems faced by social security systems can primarily be solved by higher subsidies financed by general tax revenue is an illusion in a highly globalised economy. If investors and highly-qualified individuals are taxed too heavily they will leave and if the government also offers generous social transfers, then it will attract individuals who rely on such benefits. In the long term this will lead to the collapse of the welfare state (Lang, F. P., 2017). Germany should work internationally and within the EU towards ensuring that immigration to Germany is not motivated by welfare benefits.

Global warming can be seen as another facet of globalisation. Alone Germany can do virtually nothing to limit it, so it is essential for the country to work together with its European partners to achieve global climate protection agreements. Even if Germany is not among those countries most heavily affected measures for adjusting to climate change should not be neglected, it is important to use climate policy instruments that enable the most cost-effective reduction of emissions possible. This is the only way to ensure that ambitious climate goals gain the social acceptance required to successfully achieve them. Selective interventions like the ban on internal combustion engines are counterproductive. A better approach would be to include road traffic in the emissions certificate system, because emissions could then be cut where the costs are as low as possible (Fuest, C., 2017).

A major challenge facing the next German federal government is the European Union. It needs to surmount the current EU crisis and tap the huge potential of European integration. This applies to deepening the internal market, as well as the further development of European defence and security policy. Significant efficiency gains and relief for national government budgets could be achieved via closer European cooperation in the procurement of weapons and in military operations.

Reference

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