Finanzgruppe
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STANDPUNKTE
DER CHEFVOLKSWIRTE

German EU Council Presidency: Putting the focus on sustainable growth

Berlin, 8th of November 2019

In July 2020, the German government will be taking over the rotating EU Presidency and thus, for a six-month period, formulating the main policy objectives and programmes of the Council of the European Union, taking into account the strategic agenda of the Council and the political and economic Guidelines of the European Commission. Together with the other two countries holding the trio presidency (Portugal and Slovenia), Germany will be acting as a "neutral broker" formulating, in principle, the Community's paramount objectives and programmes right through to the end of 2021.

In cooperation with the Commission presided over by Ursula von der Leyen, a common work programme is to be agreed on for the first time by the Commission, the Council and the Parliament. Like many other regions of the world, Europe is facing ever more pressing challenges. The Chief Economists of the German Savings Banks Finance Group accordingly urge that the following priorities be set:

→ Safeguarding fair and (as far as possible) free world trade, so as to enable all possible growth opportunities to be exploited in the face of the threat of economic-slowdown scenarios;

→ Bolstering climate protection with more public-sector investment so as to support macro-economic growth, with clear commitments at both the European and national levels, not least with the objective of restoring and reinforcing confidence on the private-investment front;

→ Strengthening competitiveness by improving supply-side conditions, augmenting the stock of knowledge-based capital and making available an efficient digital infrastructure across all the member states of the European Union.

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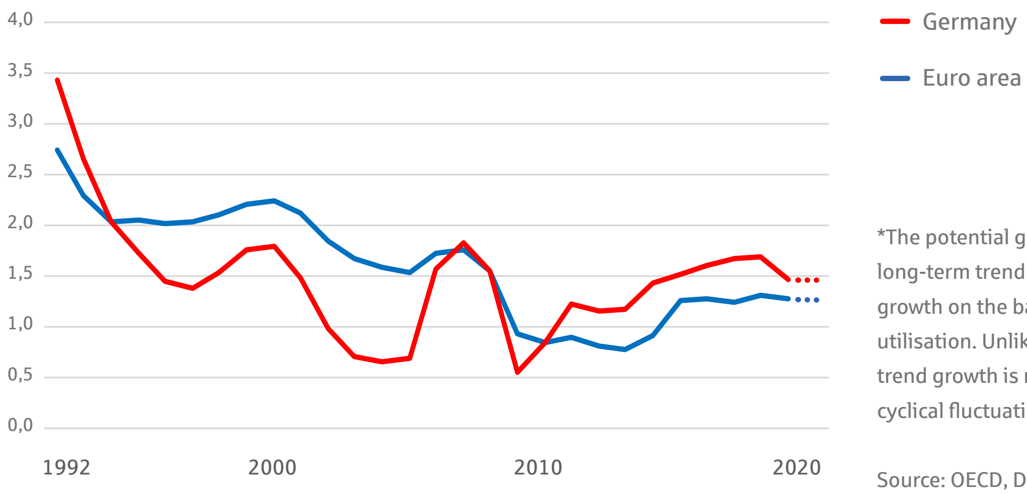
Given that the developments underlying the above priorities are of a long-term nature, the primary focuses of the forthcoming Trio Presidency will logically be in these fields, as well as on the metatopics involving the further evolution of European Governance or even of a ”pan-European vision“. Regarding the economic items on the agenda, it is the emphatic opinion of the Chief Economists of the German Savings Bank Finance Group that, from a German perspective, an approach enabling a lasting upswing needs to be given a long-term emphasis. That this is an urgent requirement becomes clear from the fact that growth has still not recovered from the slump brought about by the financial crisis.

Potential growth rate, in percent



*The potential growth rate describes the long-term trend in underlying production growth on the basis of normal capacity utilisation. Unlike actual GDP growth, this trend growth is not overshadowed by cyclical fluctuations.

Source: OECD, Dekabank

Climate and environmental protection

Ambitious goals for CO2 emission reduction, for the share of renewables in the energy mix, and for environmental standards are axiomatic tenets of German environmental policy. In this context, the German Council Presidency should work to ensure that progress is made on implementing measures to reduce CO2 emissions across Europe as a whole. Only in this way can the European institutions make a convincing and pressing case on the international stage for other states to commit themselves with the same intensity to the global good which the whole world has in common: “the environment.” There also continues to be a need to promote research and development, and to implement innovations, furthering the cause of climate and environmental protection in Europe.

The more resolutely sustainability targets are pursued, the more important it becomes to bear in mind social aspects and the knock-on effects on international competitiveness and welfare in Europe. In principle, the Chief Economists of the German Savings Banks Finance Group regard incentive-based or incentive-compatible governance to be the most promising approach. Systematically speaking, a tax-based solution can make as much of a contribution as a certificate-trading system towards internalising the negative externalities of CO2 emissions. Especially in the case of a globally mandatory negotiated solution, it may well be meaningful to devise a global certificate-trading scheme expanded to cover as many emission-relevant sectors as possible. For this reason, the German Council Presidency should work to ensure that the present certificate-trading system is enlarged so that it also applies to the transportation and buildings sectors. In the real-life conditions of national climate goals and climate policy, though, national climate taxes are also an effective instrument (provided that tax rates are sufficiently flexible) to enable emission targets to be attained, and to create symmetrical incentives for CO2 reduction on the basis of a bonus-malus system. What is of paramount importance in the case of all measures is to take into account their competitive impact on European enterprises and to counteract the relocation of activities to other countries in response to differing environmental standards.

Focus on climate protection investment

However, a further main focus of climate-protection measures must also be established on the communication front. Climate-protection efforts mean sometimes drastic changes in our way of producing and consuming. In the nature of things, such changes do not take place without costs being incurred. Whether or not citizens accept such costs partly hinges on how transparently the political class communicates the nature and extent of such costs. What is equally important is that the costs concerned are equitably distributed according to social criteria. The same holds true for the repercussions on welfare and jobs. When framing their environmental-policy measures, one of the factors which the EU should permanently monitor is how they influence the competitiveness of European enterprises vis-à-vis companies from countries with less stringent environmental stand-ards and how, if necessary, significantly negative consequences can be mitigated.

Growth policy

The Chief Economists of the German Savings Banks Finance Group are adamant that growth and environmental protection should not be played off against one another. For us, growth generation remains a key target variable for economic policy. Social disparities are easier to bridge in a growing economy because there is then more scope for upward mobility on the ladder to greater material prosperity but also a broader base for redistribution. So economic growth should continue to be promoted, taking due consideration of the sustainability principle.

In the environment of low growth rates (and, in some cases, even of stagnating aggregate economic output) which is on the cards for the remainder of this year and for 2020, the effective improvement of growth conditions in member countries should be a focal point of economic-policy considerations. This should also involve an in-depth exploration of the causes lying behind the current sluggishness of cyclical momentum. We are of the opinion that the economic weak patch which we are currently facing is not of the kind which could be overcome with the help of the traditional Keynesian toolbox. The point is that the European economy is not currently subject to a pronounced economic cycle but is rather suffering from a protracted bout of weak growth which even five years of a zero-interest-rate monetary policy have been powerless to end. The cyclical components of the slowdown can be absorbed by the automatic stabilisers (for example, by keeping state expenditure constant in the coming year despite declining tax revenues), but the underlying weakness of growth needs to be addressed separately.

Address structural reforms – strengthening competitiveness

We contend, by contrast, that the overriding economic themes of the coming decade are going to be more of the structural variety. What is at stake is to creatively translate technological change into a service-based economy and digital production processes, but likewise to meet the associated demographic challenges. For this reason, the topic of competitiveness moves right up towards the top of the agenda in our eyes. The task of setting up favourable framework conditions for corporate competitiveness lies, to a large extent, in the hands of the member states for it is they that hold responsibility for such subject areas as the administration of justice, the quality of public management, labour-market rules or education/training.

Yet the conditions pertaining to competitiveness are also shaped at a pan-European level. Regarding the question of whether or not to loosen competitive rules to allow targeted promotion of "European champions," we would advocate a differentiated approach. Existing notions of competitive policy need to be readjusted to fit new sectors and a changed geopolitical environment. By the same token, it is important to adopt a sector-by-sector approach, investigating the implications of the respective regulatory regime for international competitiveness in each individual case. A specific "European regulatory philosophy" can confer competitive advantages (for instance, in the data-protection domain) but may also entail disadvantages. We are therefore eager to see what effect the new European Commission's plan to combine responsibility for the digital market with competitive policy in a single portfolio is going to have.

In view of the way digital markets are developing around the globe, EU procedures for monitoring violations need to take their bearings by clear criteria in the potential conflict zone between data protection and competition. We advocate that the subsidy control employed to date within Europe should also be applied outside Europe, with a broad range of instruments – ranging all the way from verbal criticisms within the framework of negotiations to multitiered sanctions – coming into play in the event of infringements.

For the years ahead, the focus of discussion needs to be shifted away from a demand-side line of argument geared to cranking up economic growth in a short-termist manner to a supply-side approach aimed at eliminating long-term growth obstacles standing in the way of a more efficient and productive European economy. Monetary policymakers have now exhausted the scope available to them to stimulate economic activity. Economic history shows that sweeping and indiscriminate provision of public funds to revive an ailing economy merely creates flashes in the pan which soon evaporate, leaving the government budget saddled with higher debt, but against a background of once again declining growth rates, only a short time afterwards.

No pro-active fiscal policy

Reinforce knowledge -based capital

We take the line that targeted major expenditure programmes, for example in the infrastructure sphere, are not easy to implement either. In a number of European countries, for instance, there are simply not the resources to carry out substantial infrastructure projects, either due to planning-law constraints or else to a lack of administrative or construction capacities. Nevertheless, it is imperative to redouble our efforts in order to put in place a competitive cross-border digital infrastructure on the basis of uniform standards. We therefore urge that, despite all the reflections on investment funds, not only financing issues but also and especially implementation issues be put at the centre of the stage. In view of the demographic challenges confronting us, it also remains important to further reinforce knowledge-based capital. After all, education/training is a central pivot in Germany, as in Europe in general, enabling new innovation and investment opportunities to be transformed into new welfare benefits for all and sundry.

In certain member states of the European Union, labour-market regulations are continuing to make it more difficult to create jobs. A problem common to many countries is an excessively slow innovation system, with built-in hurdles for business startups. In view of the multifarious individual problems affecting the various member countries, it is worth considering how the EU can offer support without violating the principle of subsidiarity legally governing the exercise of its competences.

To simply set up additional budgets would open the floodgates to waste and inefficiency. It is our wish that the German Council Presidency should provide the impetus for a debate which puts supply-side framework conditions back on the same discussion level as the permanent deficit-financed fiscal programmes which are currently favoured in many quarters.

The currency, banking and capital-market union needs strengthening

Where, in the immediate aftermath of the euro crisis, the German side in particular was unable to endorse all aspects of proposals concerning the further evolution of the European Monetary Union, it is now time to develop perspectives enabling the EMU's architecture to be further enhanced. In this context, the German government can build on the measures which have been adopted recently in the teeth of all the rhetoric of stagnation, such as the European budgetary instrument for convergence and competitiveness which has now been agreed on, the reinforcement of the European Stability Mechanism, and the further development of the banking and capital-market union. In this connection, the German Council Presidency should clarify still unsettled questions, for example regarding the relationship between the new budgetary instrument for convergence and competitiveness and other European funds promoting investment. What remains decisive from the point of view of the Chief Economists of the German Savings Banks Finance Group is that, in the round, more is undertaken at the pan-European level to strengthen the continent's investment capacity during the next budgetary period (Multi-Annual Financial Framework 2021-2027).

Clarify open questions about BICC

Problems continue to be caused by the Stability and Growth Pact. Now that so many supplementary features have been tacked onto it, the SGP is now so complex that it is scarcely capable any longer of exerting any effective disciplinary effect on the public finances of member countries. In many member states, public-debt ratios and government-deficit ratios continue to be too high when measured in terms of the – still valid – core idea that debt ratios should be brought down during the good times to enable higher deficits to be run up whenever the economic weather deteriorates. The question which arises at this point is whether efforts should be undertaken to ensure that all member states enshrine budget processes and long-term balanced-budget mechanisms in their constitutions, because it is only in this way that national courts can effectively control fiscal developments. Such sustainable consolidation strategies would also provide an expedient way of solidly dealing with the infamous "state-bank doom loop." Strengthening the financial resources of the European Stability Mechanism (ESM) or of other intergovernmental fiscal mechanisms is only to be justified if fiscal sovereignty rights are ceded and if a functioning insolvency regime for member states has been elaborated.

Sound finances are a decisive precondition for growth

Important reforms for banking and capital markets have been successfully got off the ground. Nowhere else in the major fields of economic policy has it, as yet, proved possible to synchronously lift responsibility, control and liability for pan-European tasks onto a pan-European level in such a manner. The watchword for the European banking sector remains the same: that significant progress needs to be made regarding the task of effectively reducing the stock of non-performing loans to the same levels in all member countries. It is neither necessary nor appropriate to take the step leading to a centralised deposit-insurance system for such a step remains economically damaging and socio-politically dangerous.

No central deposit guarantee system

With the publication of a legislative proposal to implement Basel III finalisation ("Basel IV") likely to materialise in the second quarter of 2020, the political debate about this central topic is set to begin during the German Council Presidency. On this score, it is especially important to ensure when implementing the amended capital-adequacy rules that the functionality of the European banking sector is not weakened even more than it has been weakened to date. This is a task to which the German Council Presidency in particular should feel committed as the representative of a banking system particularly characterised by small and medium-sized banks – an important pillar for an economy which is itself largely composed of small and medium-sized enterprises.

Bureaucracy needs to be decreased

Last but not least, market forces once again need to be given more scope to come into play in Europe to strengthen the European Monetary Union. The German Council Presidency could launch a kind of "unshackling package" to spur liberalisation. Citizens' lives and the activities of both companies and public authorities are being unnecessarily complicated by excessive regulatory burdens as well as by overly complex rules, at the EU level as well. This holds particularly true in the case of procurement and planning law. There would be leeway here for the European Commission to set in motion a simplification initiative enabling necessary innovations to be rapidly put into practice.

Disclaimer

The present position paper of the Chief Economists does not necessarily correspond to the attitude of the DekaBank or the attitude of the respective Landesbanken and Savings Banks or the DSGV.

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