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Choosing Investment over Breaking Even

Article by Danyal Bayaz
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In a certain sense, Germany is the centre of European fiscal conservatism. For years, Berlin has played a key role in shaping Europe's austerity policy. The '*Schwarze Null*', the black zero of Germany's balanced budget, is vehemently defended by finance experts from both the Christian Democrats and Social Democrats. Now two members of the Green parliamentary group in the Bundestag – MPs Danyal Bayaz and Anja Hajduk – have made a bold investment policy proposal. In their paper 'Investment is more important than the symbolic black zero', they call for the introduction of an investment rule requiring the German government to fund public sector investments under certain conditions. We talked to Danyal, Green Member of Parliament and member of the Bundestag's Finance Committee, about austerity, his investment proposal, and what it could mean for Europe.

Green European Journal: In recent years austerity policies have held sway across Europe. Now more and more people are talking about the need for investment. Has the tide turned?

Danyal Bayaz: I don't believe in going to the other extreme and letting another debt mountain pile up. Keeping an eye on debt and – especially in the case of unsustainable debt – reducing it remains the right approach. But this must not come at the expense of smart investment, which is necessary for stronger economic performance. Across the EU we must find a better balance between saving, reform, and investment. In this context, it's obvious that we have neglected investment. Investment that improves infrastructure, competitiveness, and the quality of life of the population is at least as important as austerity – and is part of sound financial management.

Why is investment necessary in Germany in particular?

Despite its budget surpluses, Germany hasn't invested enough in future-oriented sectors such as research, education, and climate protection in recent years. We see ourselves as a high-tech country with a knowledge-based society, and as a pioneer in the field of environmental modernisation, but we are doing this self-image less and less justice. As far as artificial intelligence is concerned, the plan was to invest three billion euros by 2025 but now we ended up with only one billion by 2023. Shanghai alone has announced that it plans to invest 15 billion euros in artificial intelligence in the coming years. This gives you an idea of the scale of the issues we're facing. The share of fibre optic connections in German fixed broadband is just 2.6 per cent. Within the OECD, we're almost at the bottom of the table. We urgently need to renew our decaying infrastructure – our bridges and our rail network. In some cases, these are in a terrible state. My goal is for the coming decade to be one of targeted investment and infrastructure renewal.

What do you suggest?

There are various different approaches, and economists are split on the issue. One idea is to supplement the debt brake with an investment rule based on the loss of infrastructure value.[1] This could require investments to be made that are at least equal to this loss in order to maintain capital stock value. Another possibility is for the debt brake to be hitched to the debt ratio and that the scope for investment be determined on this basis. It clearly makes a difference if the debt ratio of the state is 80 per cent of the gross domestic product or nearer to 50 per cent.

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If we continue to reduce the debt level, the German state will eventually be free of debt, but Germany will no longer have the capital stock needed to do business. Another possibility would be for the state to create more financial room for manoeuvre by using a public investment fund to raise credit for certain investments. The debt brake would still apply to government spending.

Which model would you advocate?

All of these options have their advantages and disadvantages. There is also the question of what is considered as an investment and what isn't. Are personnel costs (for instance to fill teaching posts) an investment? I think a lot would be gained by developing a sustainable investment definition and excluding these types of investment from the debt brake. Public funds with special emphases are a viable option: a fund for climate protection or a fund for the nationwide expansion of high-speed internet access to even the most rural areas. These could then refinance themselves via the capital market. The interest rates (at current levels) would be well below the economic rate of return. It's a deal that almost any entrepreneur would make, but the state won't. I think that's a mistake.

We are currently facing years of huge challenges. In the next decade, instead of defending the symbolic 'black zero' on ideological grounds, the Ministry of Finance must become a 'strategic investment' ministry. In my view, an investment rule would be an effective middle way.

How would you ensure that investments flow into the areas which need them most?

This is part of the democratic negotiation process. Investment in roads is not intrinsically bad, many of our bridges require renovation, and some of our canals and locks date from the German Empire. Here, too, we have to invest. But we also need to invest in railways, cycle routes and public transport – areas which are otherwise often neglected. It should be the task of every federal government to set strategic goals and follow them up with investments. The Greens will have to forge compromises here. But above all it is clear that investments should serve to strengthen the innovative capacity of our economy. This can be achieved in various different ways; good schools are just as important as a well-functioning infrastructure and outstanding research institutions that cooperate closely with companies. But innovation is crucial in determining where we will be in terms of global competition in 10 years' time.

What do you mean by global competition?

It's more than economic indicators such as growth, exports or level of taxation. We need to start taking a more holistic approach, moving away from purely growth-based GDP criteria to include environmental criteria such as resource and energy productivity. But especially when it comes to global competition, we have to consider innovation and technological progress. I have just been to China and I was worrying to see how China is strategically combining geopolitics, industrial policy, and a disruptive technological agenda. China aims to become a technological superpower. If we fall behind, then so will our economic performance and wellbeing. Competition is also therefore a question of the economic, technological and innovation capacity in a global economy.

Austerity is controversial among the German Greens. In 2012 there was a major dispute over the European Fiscal Compact, which was finally approved by a very narrow margin. Would such a vote would end differently today?

This 2012 decision was taken in the midst of the euro crisis. Without the Fiscal Compact there might not have been any aid for Greece. The resulting damage to the EU could not have been foreseen. In this respect, I believe that, as then, we are dealing with the issue in a very critical and appropriate manner.

It is clear that we need Europe-wide investment

We should be clear about what we are discussing here. Greece, with its tax collection and debt problems? Italy? Or Germany perhaps? Hence the proposal to create new room for manoeuvre for countries with a low debt ratio. It's also worth looking at Portugal, which too was hit by the financial and euro crisis. There, sizeable investments were made into social infrastructure – 12 billion for public transport and 8 billion for energy and environmental projects – instead of investing in expensive tax gifts.

Would such a German investment rule be compatible with the European treaties?

Yes, as long as we comply with the Maastricht criteria and the rules on the Fiscal Compact. Once again, it makes a difference whether the government debt ratio is 80 per cent or 50 per cent of GDP. In the case of a low debt ratio, Maastricht gives more room for manoeuvre for loans. This idea is explicitly anchored in the Maastricht regime.

Why should an investment rule not be accessible to countries that do not meet Maastricht regime criteria? Some countries have entered a downward spiral since the crisis of 2008. They were abiding by the Maastricht regime before the crisis, while other countries such as Germany were not.

Our goal is to propose an adequate approach for Germany. The German government has created a lot of confusion and anger in the aftermath of the Euro crisis by giving fiscal advice to suffering European countries. We shouldn't repeat this. Of course, every European government should feel motivated to discuss national and supranational approaches to fostering investment.

What impact could an investment rule for Germany have on the rest of the Eurozone?

More public investment would definitely lead to rising domestic demand and our trade surplus would narrow slightly as a result. At the same time, other countries would have a greater chance of operating in the German market, thus increasing the flow of money into Southern Europe.

Just as I expect our partners to abide by rules such as Maastricht, so we must recognise that our permanent current account surplus leads to macroeconomic imbalances. In purely economic terms, a positive current account balance means an export of capital, a sign that we invest too little domestically.

This summer 2019 has shown that Germany appears to be entering recession, which would have serious consequences for the Eurozone as a whole. Has time not come to end the internal deflation of wages and consumer prices that Germany has stuck to in recent decades and that made the country's industrial sectors so competitive?

We entered a heavy recession 10 years ago. The economic stimulus package launched as a response consisted of short-term work allowances (*Kurzarbeitergeld*) and a cash-for-clunkers car subsidy programme (*Abwrackprämie*).

These measures may have pushed up GDP for a moment, but did not lead to the necessary structural changes. We cannot afford to repeat these mistakes in a possible new economic downturn. We should rather – heavily and on a continuous basis – invest in structural deficits and stimulate domestic consumption, which would also lead to more private investment. The German economy is cooling down while the planet is heating up. We need to make use of this situation to invest in climate change measures, green tech, and renewable infrastructure in order to combat climate change and simultaneously stimulate the economy. It's about turning a profit from saving the planet.

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To what extent should EU countries such as France, Italy, and Greece also be able to introduce an investment rule?

Each country should be able to decide for itself. The economic situation varies enormously between Member States. It is clear that we need Europe-wide investment – in artificial intelligence in particular. Among other measures, a common budget for the Eurozone would be really helpful here.

Germany is considered a fiscally conservative country. Couldn't your proposal harm you politically?

It is definitely a sensitive issue in Germany, but I can't see any harm coming from the proposal. Quite the opposite – this is a debate we need to be having. The feedback I've received makes this clear. In my opinion, fiscal policy isn't about values such as conservative or liberal but rather what makes economic sense. The black zero is gaining symbolic status in Germany. Politicians have praised themselves for balancing the books, without having to do anything much to get there – tax revenues came streaming in regardless. Now, of course, nobody wants to be the first Finance Minister to desecrate this powerful symbol. That is precisely why a debate on the usefulness of the black zero concept is so important. It is the subject of intense debate among economists. There too, opinions are changing in line with the new realities we are facing.

How did the other parties react to your proposal?

I was surprised by how many positive responses there were. Anja Hajduk and I received a lot of support, including from the federal states, although we did encounter different points of view there. There is a range of perspectives within the parliamentary group and the Green party more broadly. The group will continue to develop its ideas on this issue, which will include an expert discussion. Overall, it's clear that our proposal for the further development of the debt brake has been positively received. Finance Minister Scholz (SPD), however, seems totally unwilling to look at the black zero with a critical eye or to review the debt brake. I know for a fact that not everyone in the Ministry of Finance is happy about this. Speaking of himself, Mr Scholz has said: "A German finance minister remains a German finance minister". He appears to see it as his duty to resolutely maintain the course set by his predecessor Wolfgang Schäuble. And CDU party leader Annegret Kramp-Karrenbauer wasn't able to come up with anything other than to accuse us of running up debts. On the other hand, there are MPs sitting on parliamentary committees who are interested in an open debate. I am sure that the subject will make it onto the agenda, but we need to act soon – before the economic situation forces us to.

Footnotes

[1] An instrument introduced into German constitutional law to guarantee public budgets either without structural deficits or with only very limited deficits.

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