



REPORT ON THE ECONOMIC SITUATION

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Future-oriented economic policy

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This week, the Expert Panel on the Economy submitted its annual report. The experts anticipate - as do the federal government and the economic research institutes involved in the joint diagnosis - that in the current year, the GDP will shrink by 0.4 percent with an inflation rate of 6.1 percent, whereas economic growth in 2024 will reach a meagre 0.7 percent, with moderate inflation of 2.6 percent. Particularly the growth forecast for 2024 deviates significantly from the federal government's projection, and it is even more pessimistic than the IMF projection, although it is in line with the expectations of some economists.

The inflation rate, on the other hand, appears to be optimistic. For the Eurozone, the European Central Bank expects an inflation rate of 3.2 percent, which is 0.3 percentage points above the 2.9 percent that has been forecast for the Eurozone by the Expert Panel. Considering the expected wage increases, concerns about rising oil prices as a result of the conflict in the Middle East, along with other special effects (e.g. expiry of reduced VAT rates), it is possible that inflation will still remain too high.

Or put another way: Germany is still in a stagflationary environment. It is not clear where the economic growth is supposed to come from. The economic experts have diagnosed weak investment activity and weak foreign trade activities. The persistently high inflation rate requires a lot of patience and will require the ECB to keep the prime rate at its current level. Lofty ideas of lower prime rates as early as the next year are probably an illusion.

Against this background, and supported by a multitude of additional analyses performed by the Expert Panel, it is clear what the economic and financial policies should look like: Supply policies must be the priority. In this vein, the Expert Panel's annual report focuses on three areas that are of relevance in this context: strengthen innovation, improve financing conditions and increase earning incentives for low-wage earners, secondary wage earners and older workers, with the latter embedded in a general discussion pension system reform.

There are a lot of good items in the report. At the same time, the experts are too timid when it comes to the federal government's policies. There is hardly any criticism on that front, presumably to maintain

the consensus in their report. Only the statements regarding the pension system triggered some minority votes, as one member of the panel believes that the suggestions for a higher retirement age go too far, and another panel member does not believe that redistributions between pensioners with relatively high and relatively low incomes in the context of statutory pension insurance are useful because they break the equivalence principle.

The inconsistencies of the current economic policies are not broached: making energy more expensive by shutting down nuclear plants and switching to coal-based electricity while also trying to use subsidies to reduce the higher costs with an industrial electricity price; to try to reduce red tape while simultaneously and massively increasing the intensity of regulation with the Building Energy Law or the Energy Efficiency Law; stating that the tax burden in Germany is too high based on a global comparison, but not doing anything to relieve the situation other than the Growth Opportunity Act; wanting to increase incentives to work while simultaneously weakening said incentives with the Bürgergeld and the guaranteed child allowance. The list could go on.

And while not all parts of the government are getting tangled up in such inconsistencies, unfortunately most of them are. The alternative: reduce the tax burden on companies, deregulate to reduce red tape, improve energy supplies, increase employment by reforming the social system, including the statutory pension system. There is no shortage of suggestions.

Sincerely yours

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