



## A week of decisions

Exclusive report for ACATIS Investment: Prof. Dr. Dr. h.c. Lars P. Feld, University Freiburg and Walter Eucken Institute

The quote is attributed to Lenin (probably wrongly): “There are decades where nothing happens; and there are weeks where decades happen.” In any case, calendar week 45 was a very eventful week that may even go down in the history books. First, there was the US presidential election in the US, which was decidedly won by Donald Trump, well ahead of his challenger Kamala Harris. Moreover, the Republicans won the Senate and are likely to also hold the majority in the House of Representatives. Trump could also shift the majority of judges in the Supreme Court in his favour in his first term. It’s a clean swipe.

The precise impact on the world, Europe and Germany is not clear at the moment. Trump’s first term was characterised by on-going machinations on his part. His policies appeared erratic, which makes it difficult to anticipate the future. The next few weeks will show what we can expect.

The second major event happened on Wednesday, 6 November 2024, when the governing coalition of SPD, Greens and FDP was dissolved with the firing of the federal finance minister by the federal chancellor. At this time, Germany is governed by a green-red minority government. An early election is supposed to take place no later than March 2025.

Hopefully it will happen sooner, as the economic uncertainty that has been created by this government since it took power has become a problem for the German economy and also with regard to investment and consumer decision-making. The reason: fundamental differences in economic policy. The Greens and SPD believe in a controlled structural transformation involving commands and prohibitions (i.e. administrative law), with subsidies and industrial policy (i.e. controlled investments). The FDP and the opposition CDU/CSU (at least as represented by their leader and the General Secretary) want to rely on a social market economy, pricing mechanisms and the belief that creating the right environment will result in economically rational decisions by companies and consumers. Accordingly, the transformation is supposed to be primarily implemented with CO<sub>2</sub> pricing, ensuring that subsidies designed to mitigate the negative impact of this transformation are limited in scope, and by creating social policy-motivated compensation within the framework of the existing tax transfer system.

The paper authored by Christian Lindner highlights this discrepancy and illustrates what a supply policy transformation for the economy could look like, and the measures that would be required to achieve a reasonable improvement in the cost situation for companies in the area of labour, energy, regulation and taxes. At the same time, the paper also highlights that such a policy is possible without violating the debt brake (Schuldenbremse) and the new European fiscal rules in the current stability and growth pact. It could have formed the basis for compromises within the coalition.

The Social Democrats in particular were not prepared to accept changes to labour and social policies. They continue to favour stricter labour market regulations and expanded social benefits. The chancellor’s call to suspend the debt brake with an emergency order to finance the increased financial aid to Ukraine is openly unconstitutional and politically transparent. In light of the federal budget of approximately EU 490 billion, increasing the financial assistance for Ukraine by EUR 3 billion does not adversely affect the government’s financial situation (as defined by Art. 115 of the Basic Law) to any significant degree. The exact composition of the EUR 15 billion that have been announced for the order remains a mystery. In truth, this is about financing social transfers with debt.

Against the background of the current SPD/Greens minority government, the CDU/CSU is not able to extend a hand with regard to budgetary or social policy. It is unlikely to consent to the supplementary budget for 2024, the 2025 federal budget or Heil’s pension package, which would protect those paying premiums and taxes, at least for the time being. Since this is the likely scenario, the chancellor should ask for a vote of confidence earlier and not stand in the way of new elections. Germany needs better economic policies.

Sincerely yours

Prof. Dr. Dr. h.c. Lars P. Feld