On the Report „Increasing Investment in Germany“ and Some Implications for EU development

Reviewing Germany's role in global competition, reviewing the competitiveness of corporations and companies having headquarters or being based in Germany, the ruling concluded that the public and private investment performance is too weak. So the Federal Minister for Economic Affairs and Energy Sigmar Gabriel appointed an independent Expert Commission in August 2014. The 21 members represent sections of industry, society and academia. The most important trade unions and their umbrella organisation DGB had representatives in the commission. The task was to examine the investment needs in infrastructure and conditions to improve Germany's attractiveness to domestic and foreign investment. In April 2015 the commission presented its report „Increasing Investment in Germany“[1]. For understanding its „philosophy“ the following two quotations and the four graphs/tables are helpful: „Investment is the foundation for economic growth and employment. A modern capital stock is the basis for technological progress, ensures a country’s competitive strength, forms the basis for business success and the sustained development of highly skilled employment, and makes an intact and valuable community possible.“ (Report: 5). The starting idea is: „Innovative capacity is of vital importance in order for Germany to be able to assert itself as a location for business and investment and its global leadership in many areas in the coming years and decades.“ (Report: 5)

Public debt in Germany

Federal level   States   Municipalities   Statutory social insurance

Source: Traud, G. (2015) Schulden von Ländern und Gemeinden gebändigt?, Helaba, Sparkasse, 11

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1 „Increasing Investment in Germany. Report prepared by the Expert Commission on behalf of the federal minister for economic affairs and energy, Sigmar Gabriel. Summary“, BMWi, Berlin 2015.

Tax revenues on different administration levels (thousand million €)

Year	Tax revenues (brutto)	Tax revenues (federal level)	Tax revenues (states)	Tax revenues (municipalities)
1991	338,4	162,5	116,5	43,4
1992	374,1	180,4	128,5	47,7
1993	383,0	182,0	133,1	49,1
1994	402,0	193,7	137,6	49,8
1995	416,3	187,2	160,2	48,6
1996	409,0	173,0	167,8	48,1
1997	407,6	169,2	167,7	49,3
1998	425,9	174,6	175,9	53,7
1999	453,1	192,5	184,0	56,3
2000	467,3	198,8	189,5	57,1
2001	446,2	193,8	178,7	54,1
2002	441,7	192,1	178,6	52,5
2003	442,2	191,9	177,6	51,8
2004	442,8	187,0	179,9	56,4
2005	452,1	190,2	180,4	59,8
2006	488,4	203,9	195,1	67,3
2007	538,2	230,1	213,2	72,7
2008	561,2	239,2	221,9	77,0
2009	524,0	228,0	207,1	68,4
2010	530,6	225,8	210,1	70,4
2011	573,4	248,0	224,3	76,6
2012	600,0	256,3	236,3	81,1
2013	619,7	259,9	244,2	84,5
2014	643,6	270,7	254,3	87,6
2015*	671,7	281,4	267,7	91,9
2016*	686,2	288,1	275,3	92,9
2017*	717,6	299,3	284,8	99,9
2018*	744,6	312,3	295,4	101,7
2019*	769,5	324,0	304,1	105,2
2020*	795,6	334,8	314,9	109

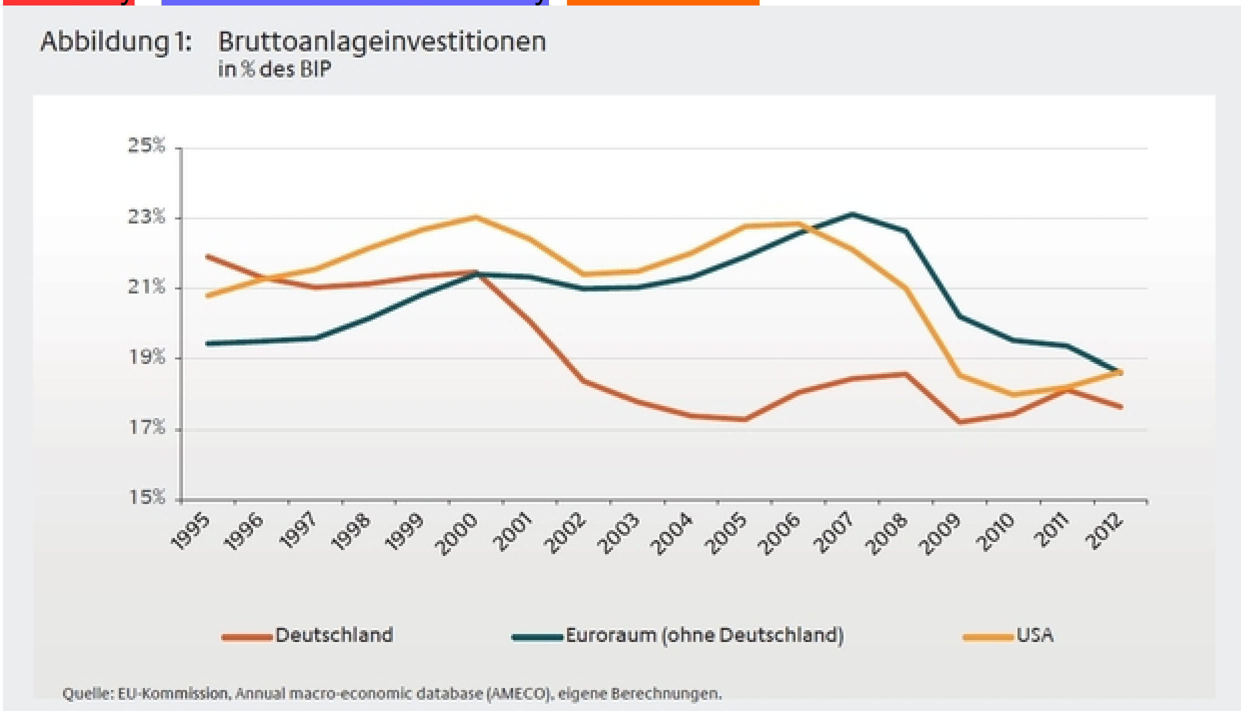
*estimated

Source: http://www.haushaltssteuerung.de/steueruhr.html , Bundesministerium für Finanzen

Public debt is one of the crucial reasons for weak public investment activity. But tax reforms in favour of the rich and the net exporters are a crucial factor for public debt.

Gross fixed capital investments (share in GDP, %)

Germany Eurozone without Germany United States



Sorce:
https://www.bundesfinanzministerium.de/Content/DE/Monatsberichte/2014/03/Inhalte/Kapitel-3-Analysen/3-3-investitionsschwaeche.html

The weak German investment activity doesn't reduce Germany's export activity significantly yet, but there is a danger of negative influence in near future.

Growth rates of German exports and imports 2000-2014 in %

	Exports		**Imports**	
Year/Region	**2000 - 2008**	**2008 - 2014**	**2000 - 2008**	**2008 - 2014**
Total	6,4	2,4	5,2	2,1
Eurozone	5,6	-0,3	5	2
Other EUmemb.	7,1	4,2	5,3	2
EUcrisis memb.	4,9	-2,7	2,2	1,3
Eastern Europe	13,5	1,4	10,5	5
BRIC	17,3	6,9	13,2	1,7
China	17,4	14,1	14,7	2,8
US	1,8	5,2	-1,6	1,1

Source: Heine/Sablowski 2015

The table shows a tendency of a declining role of the Eurozone and EU in Germany's foreign trade. This tendency is especially sharp in relation to the „crisis countries" Italy, Spain, Greece, Portugal, Ireland and Cyprus.

The report concentrates on the question of „how investment in Germany can be increased without having to resort to changes in the fiscal, tax, energy or European frameworks that would be controversial or difficult to implement at political level.“ (Report: 3)
After analysing the report and before presenting it, some own remarks resp. conclusions are formulated:

1. The report doesn't aim any step toward a necessary socio-ecological transformation. The divergent positions of the trade unions (IGM, ver.di, IG BCE, IG Bau and DGB) lead to the main conclusion to „reject tax proposals that would generally result in a shift of the already unequal tax burden of labour and capital at the expense of not only labour but also the public sector.“ (Report: 16) It means, the trade unions share the main orientation of the report. This is a sharp contradiction to solidarity in the society as to trans- and international solidarity with workers and the social weak. The trade unions don't insist on socially and ecologically sustainable development.
2. The open outbreak of the financial and economic crisis was not used for changing Germany's track of investment and especially of socially and ecologically useful investments. In the opposit, Germany avoided to change the tax policy in a just and more sustainable direction and exported own instruments limiting investments to the EU and especially the Eurozone member states.
3. Dealing with the own weak investment performance while increasing investment weakness of other EUmember states, Germany uses its gains from the Eurocrisis, especially from Greece, for own debt reduction and investment. Realising the necessity of a certain support for the public sector to ensure its role for increasing global competetiveness, such a policy is prevented in the „crisis countries“.
4. Aiming more investments and stability the proposals of the commission are based on international experience. The society should be attracted to rising contributions to investments while dealing with speculative effects of financial markets. So increasing global competetivenes the societal consensus with strong nationalist orientation is being reorganised.
5. Germany is more interested in preserving the Euro as a currency than in the sustainable development of the Eurozone. The Eurozone and the EU are interesting for Germany in relation to its own global competetiveness. So digital and energy infrastructure, property rights and investment protection as additional finance sources are of much higher interest than the comprehensive development of the EU.

The headlines in the following text are taken from the report.

1. Mechanisms for ensuring sustainable Investment

The declining and low investment, the rising and high public debt and the tax reforms must have negative impact on infrastructure and capital stock. In 2009 a limit on public borrowing (“debt brake”) was introduced. The fiscal target of balancing the federal budget while not taking on any new debt (“black zero”) aims to stem the trend toward growing public debt and increases the pressure on investment. This is the big reason for public-private partnerships which were and are very expansive in the end. Facing the deficit of investments, the commission recommends more voluntary binding commitments by public authorities to ensure needed investment, for example:

- Examine a budgetary commitment to undertake public investments that would at least offset the depreciation of public property. Such a budgetary rule would require the recording of property and depreciations
- A budgetary stipulation at federal level that unexpected budget surpluses are to be used to increase public investment
- The creation of specialised institutions that support regional and local authorities in realising new investment and maintening infrastructure.

2. Provisions of public infrastructure

A) Ways to strengthen local infrastructure

Also and especially for investments in municipalities a balance between financing, efficiency and risk is crucial. But often this balance is not realised.
For increasing municipalities' finance scope the commission proposes:

- Creating a **National Investment Pact for Municipalities** to enable an increase in municipal investment by at least €15 billion over the next three years;
- creating an **“infrastructure company for municipalities”** or creating several different regional and infrastructure companies for specific types of infrastructure; such companies should be funded by the Federal Government and state governments. An infrastructure company should help municipalities choose the most effective variant for their needs and strengthen the planning and implementation process.
- Examining the progressive development of **“public collaborations”**– procurement models where public undertakings and collaboration between municipalities take centre stage.

B) Transport infrastructure on federal level

As a long-term solution for ensuring investment in federal trunk roads, the commission proposes examining the establishment of a public **infrastructure company for federal trunk roads** (transport infrastructure company). That company could offer the following:

- Constructing, maintenaning and managing federal roads “from a single source” following the life cycle approach
- Financing primarily/exclusively from usage charges without leading to any additional burdens for car users
- borrowing without government guarantees so that a clear demarcation to the public sector is ensured; preservation of public oversight. This means no “privatisation” of Germany’s federal trunk roads.

Of fundamental importance is the decision regarding the ownership of the infrastructure company. The commission is in agreement that the public sector should hold at least a majority stake in this infrastructure company. The commission recommends that the experience other countries – such as Austria, France and Switzerland – have gathered when working out the concrete terms and details of such a company.

C) Mobilisation of additional private infrastructure financing

At present, the vast majority of infrastructure projects in Germany are realised by "conventional" methods: planning, construction and operation of projects are awarded or rendered by public contracting authorities and paid using own resources, bank credits or fixed-rate bonds. This often poses enormous financial difficulties for smaller municipalities and limit their ability to act. Projects realised through public-private partnerships, where private investors are to provide financing and subsequently be liable for mistakes during construction, don't avoid that the public sector must pay for this risk transfer. Furthermore, often the transfer of risk does not succeed.

The commission proposes to examine two models:

- A **"citizens' fund"** as a collection point for infrastructure financing provided by individual savers, set up to promote citizen participation. This type of fund would offer people a new type of investment that would enable better returns – with an acceptable level of risk – than other investments such as savings deposits, demand deposits or government bonds and could additionally make a contribution to society.
- A public **infrastructure fund** administered by Germany's Federal Government and state governments. The tasks of this fund would be similar to a private infrastructure fund. Private institutional investors would invest in the fund at their own risk. By bundling several projects, risk would be spread and efficiency gains would be split between the public contracting authority and the investors. The business models of the development banks could be expanded in this direction.

Investments on the part of individuals should be promoted pursuant to the Capital Accumulation Act (bonus on employee saving schemes). To increase people's identification with the investments they are financing, special transparency and information requirements for the different forms of investment in infrastructure should be ensured by the Investor Protection Act.

3. Framework conditions for private investment

A) Horizontal measures

„A key reason for the German economy's competitive strength is its ... mix of large corporations, a large number of micro-businesses and self-employed persons, and a broad segment consisting of small and medium-sized enterprises. However the amounts that German enterprises are investing in Germany have declined noticeably over the past decades. They are too low to preserve a modern capital stock or ensure Germany's long-term competitiveness and attractiveness as a location for business and industry. Weak private investment in Germany is the result of inadequate framework conditions in many areas." (Report 8)

In view of the current demographic trend and economic structural change, the „political sector" must invest much more in training and qualification and ensure that qualified skilled workers are available. More efforts to improve the human capital are needed. A minimum of bureaucracy and and regulation to encourage long term investment are demanded. So regulation and deregulation have to be connected efficiently.
„Demand from abroad – alongside stable domestic demand – plays an important role for investment by the private sector. For this reason, maintaining open markets and strengthening trade relations are of key importance for Germany's export-driven economy.

In this day of global value chains, trade agreements and specific investment agreements are ever-larger factors in determining how attractive a particular location is when making investment decisions. For this reason, the European Commission is taking the right approach in principle when, in view of the lack of progress within the WTO framework, it negotiates more bilateral trade agreements with strategically important partners." (Report 9)

B) General conditions for innovation

An important prerequisite for innovation in Germany is an „innovation policy that is successful in the international competition over researchers and investments undertaken by research-intensive companies. ... a sustainable innovation policy should design effective support measures and subsequently conduct an adequate evaluation of them. Society's openness to and acceptance of risk … are a major determinant in how innovation-friendly the general conditions for innovation are. In order to catch up on a long-term basis with those nations that lead the innovation field, Germany should not target the three per cent goal in future, but rather gear itself to the research and development (R&D) intensity of the world's frontrunners and strive for a more ambitious goal of spending 3,5 per cent of its gross domestic product on R&D." (Report: 9)

The commission recommends improving the general conditions for innovation in four areas:

- improving the access to external financing and particularly to equity financing; the commission therefore recommends a system of taxing capital that does not give preferential treatment to outside capital or self-financing over equity financing. So tax deductions for the calculated return on equity as part of a revenue-neutral tax reform should be used. Capital-market and regulatory conditions should be made more attractive so that institutional investors are not too restricted by regulations.

- preventing a shortage of skilled labour, particularly by promoting subjects in the fields of mathematics, information technology, natural sciences and technology (“MINT” subjects)
- orienting innovation policy more to facilitating foreign investments in research and devel- opment (R&D) and preventing a “know- how drain”. The introduction of a tax incentive promoting R&D should be given consideration as a means of establishing internationally competitive conditions for the R&D activities pursued by companies.The aim is to ensure that subsequent added value would be generated in Germany.
- Developing and implementing a systematic evaluation of innovation policy-based funding measures; The establishment of modern evaluation procedures, particularly for innovation policy-based funding measures, is urgently needed to ensure the efficacy and to effectively allocate public funds.

4. Private infrastructure

A. Digital infrastructure

„In order to remain competitive, Germany must invest in its digital infrastructure. 'Digital infrastructure' here refers to broadband networks, digital services (such as in the areas of healthcare, education, energy, government) and the resulting innovations. Priority must be given to making major investments at broadband network level because the availability and capacity of these networks in Germany are below average compared to international standards and this *digital gap* between Germany and the competition is growing.“ (Report: 10)

The commission therefore recommends improving the regulatory framework for investment in broadband networks. Concessions would be coupled with regulatory requirements and possibly also with government subsidies.

The cmmission wants an in-depth discussion of the subject of „network neutrality“ and its impact on the investment incentives for network and service providers. An innovation-friendly definition of network neutrality, as proposed by the Council of the European Union must be examined. Such a construction must be combined with a clear framework regulating the activities of providers and avoinding negative impacts on prices.

Government funding for the development of new applications and the implementation of pilot projects in connection with smart grids or to step up Industry 4.0 will increase the interest of companies to invest. This also concerns application-oriented research in such areas.

B. Energy

Germany's new energy strategy and the Energy Union require German investments from 31-38 billion Euros until 2020. Investments are needed in the complex energy sytem. The commission has identified the following priorities:

- Gear investments in grids and power generation more strongly to serving to the system
- Increase investment in energy efficiency
- Reduce regulatory uncertainty what is connected with the EU energy policy
- Increase the level of acceptance
- Make the achievement of defined objectives quantifiable.

C. Young companies

Young companies „make an important contribution to German industry's competitiveness and capacity for innovation" (Report: 11). So the commission is concerned about the German shortages in this field. It underscores the following recommendations:

- *Improve the general conditions for start-ups what* requires dismantling bureaucratic hurdles for business start-ups and lowering the regulatory requirements for business founders and young companies
- *Dismantle barriers to financing:* tax obstacles for private investment in equity capital should be dismantled. „The introduction of a European stock exchange segment for young companies could counter the lack of follow-up financing and foster private venture capital investments" (Report: 11).
- *Improve the cross-linking and sharing of information regarding intellectual property rights; So t*he commission welcomes the introduction of the European patent and the establishment of a European patents court.

5. Europe: Germany's contribution to Europe's investment agenda

Europe has still to deal with the financial and economic crisis. It has a weak public and private investment. The level of investment in Europe today is €430 billion less than in 2007 and considerably less than during the past 20 years. „The key to a sustainable recovery in Europe lies in faster growth that must be bolstered first and foremost through a joint investment and modernisation campaign. Reforms that focus solely on austerity measures cannot succeed.

The Expert Commission welcomes the "Juncker plan" for involving private capital in investments aimed at ensuring future development. It recommends examining the establishment of the Juncker plan for Europe on a permanent basis should it prove to be successful. In order to do this, funding for the European Fund for Strategic Investments (EFSI) on which the plan is based must be increased and a mechanism must be created for recapitalising or expanding the Fund in future, should this become necessary. This however requires a decision-making structure that would protect the

EFSI's capital and ensure that the possibility of a future recapitalisation does not lead to imprudent han- dling of current funds. The EFSI governance structure should be able to fund economically useful projects and, as a result of its assumption of greater risk, mobilise private investment. Steps should be taken to ensure that EFSI guarantees are provided on a straightforward basis with a minimum of bureaucracy." (Report: 12)