EUROPEAN INTEGRATION 31.05.2017 | Joachim Poß

No more penny-pinching

Germany needs to end its obsession with austerity and start investing in Europe

Pro-European parties should certainly not be cowed by the rise of the populist, anti-European faction, but they need to have realistic expectations. The Council of the EU can't yet agree on how to develop or restructure the Economic and Monetary Union: there's a huge divide those member states that support (or who at least don't oppose) the reforms and the countries whose governments block every initiative that passes through the Council. The latter group is less interested in objective fact, more interested in how its decisions will play out to a domestic audience. These countries display a fundamentally negative attitude towards a Europe that is duty-bound to uphold the values of democracy, the rule of law, and freedom of speech. Not even Emmanuel Macron's election can shift this attitude.

This deadlock means individual member states must play their part in stabilising the Eurozone - especially Germany. Berlin has already pushed through a number of measures to this end under the Grand Coalition, including supporting an educational investment fund and infrastructure in financially weak local authorities. Parliamentarians have also strengthened domestic demand in Germany with the introduction of the minimum wage.

Budget surplus

However, Germany can and must invest more. The fiscal pact allows budget deficits of up to 0.5 percent of gross domestic product (GDP) for investments. In 2016 Germany had a budget surplus of 0.6 percent of GDP, while it was sitting on an investment backlog of €140 billion, according to figures by the German Federal Ministry of Economic Affairs and Energy. The International Monetary Fund (IMF) also came out in favour of this recommendation in a May 2017 report:

The available fiscal space should be used for initiatives that enhance the growth potential, such as investment in physical and digital infrastructure, child care, refugee integration and relief of the tax burden on labour.

More investment would not only boost domestic demand and reduce Germany's much-criticised excessive current account surplus, but it would also secure jobs and demonstrate the country is a good place to do business.

An independent growth-oriented process of consolidation will help reinvigorate the Mediterranean countries. Consolidation was and remains necessary to make the region less vulnerable to developments on the financial markets. But it would be a mistake to introduce unwise cuts without considering what constitutes sensible investment. Cuts need to be smart, not just where it seems easiest. We also need more structural reforms to combat youth unemployment and modernise educational and youth-training schemes.

Within the framework of European investment in the Mediterranean countries of the Eurozone, it is clear investments are only effective where countries have modernised their institutional structures. Where administrative structures are failing, it's difficult to implement investment programmes. In many cases programmes fail not because of a lack of resources, but because of a lack of expertise or willingness to take decisive action. The Mediterranean countries also need to take a firmer stance on corruption, clientelism and tax evasion.

Tax evasion is EU-wide

The problem of widespread tax avoidance and tax evasion within the EU, however, is by no means limited to the Mediterranean. Firms and wealthy individuals are known to move money around within the EU to optimise their tax advantage. The Benelux states, Ireland and Malta facilitate this practice, attracting corporations by means of unfair tax competition. Undercutting taxes in this way shows a lack of solidarity with other member states, and ultimately undermines the EU's. This race to the bottom leads to a reduction in tax revenue and therefore to less investment in the future.

A mutual, consolidated corporation tax with a minimum tax rate is the only viable basis for a fair business taxation system in the EU. Whether this project proves to be a success will depend primarily on the decisions made by the heads of state and government in the European Council.

In the medium term, the member states need to consider treaty change if the Economic and Monetary Union is to be reformed. In that discussion, priority must be given to developing the Eurozone's architecture, including introducing a suitable fiscal capacity as a macroeconomic stabiliser and a joint ministry of finance and economy. Working with the

avowedly pro-European Macron will make this easier. But to be clear: we can't expect agreement on treaty change overnight, but it would be far worse to wait idly until member states reach 100 percent consensus.



Joachim Poß
Berlin

Joachim Poß is Member of the German Bundestag. Since 2013 he is member of the parliamentary committee for EU affairs.