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To the point!

Cross-Asset- and Strategy-Research

Solid financing for multiple challenges is paramount

A new solidarity surcharge for generationally fair funding

It is no exaggeration to state that we are facing the greatest challenges since the end of World War 2. The familiar security architecture in Europe is in ruins.

Investment needs are piling up everywhere you look

But the Russian incursion also accentuates the urgency of the already overdue energy transition. The need for investment is enormous if we are to free ourselves from dependence on Russian energy, especially gas, as quickly as possible.

The pressure to act and the financing gap are likely to increase even further, if the EU ultimately decides to impose an import ban on Russian energy, despite Berlin's (still) resistance. The voices in favor of this are becoming louder and more diverse. Or if Putin turns off the tap on his own.

Then there are the costs of the massive investments in national defense. The transitory costs of climate policy, also such a generational task, are additional.

It is difficult to say with any degree of certainty how deep the economic crisis caused by the tightening of sanctions would be. Energy-intensive sectors such as chemicals and heavy industry would be hit particularly hard. Short-time work schemes and company bankruptcies could return on a major scale. Government support expenditures would continue to rise.

How should economic policy respond to this?

Of course, it would be possible to meet the necessary expenditures through additional borrowing. The federal government is solvent and can still tap the markets at extremely low interest rates. Future generations would bear the costs.



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Germany's public finances face multiple demands in a changing world

But we are already leaving our children and grandchildren a financially precarious public health care system and a pension system with feet of clay. Not to mention climate risks. Making them pay for the political failings of our generation is difficult to justify from the point of view of intergenerational justice. Not to mention the incompatibility with the debt brake anchored in the German constitution.

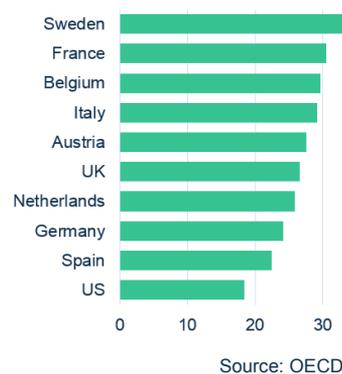
Special situations require special measures

The last time Germany faced such Herculean tasks was reunification. At that time, the decision was made to make a "special sacrifice" in the form of the "solidarity" surcharge. Incidentally, the introduction of the solidarity surcharge in 1991 was also justified by the "additional burden (...) from the conflict in the Gulf" and the support of the countries in Central, Eastern and Southern Europe". This was intended to put the financing of the unique challenge, but also enormous opportunity, on a solid and socially balanced footing.

What was right then is not wrong today!

If the current situation does not justify temporary (!) tax measures, when else? The chart shows that the tax ratio in Germany is still quite moderate by international standards. Politicians must explain to citizens that these huge expenditures cannot be covered by current revenues alone. The turnaround cannot be achieved for free.

Tax Ratios (2019)



A new solidarity surcharge to pay for extraordinary efforts

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