LBBW Bereit für Neues

To the point!

Cross-Asset- and Strategy-Research

Top court reprimands German government

LBBW_Research

Moritz Kraemer -- Chief Economist

LBBWResearch@LBBW.de

November 17, 2023

Berlin must now develop a sustainable position on debt brake

That's probably the last thing the coalition government needed. As if they didn't already have enough problems, a big one was added on Wednesday. How big? 60 billion euros. This is the amount that the coalition had shifted from authorized but undisbursed loans to overcome the coronavirus crisis to the climate and transformation fund. This state fund is intended to help finance Germany's transition to climate neutrality.

Constitutional Court stops reallocation of corona funds worth billions

The Federal Constitutional Court in Karlsruhe has now overturned precisely this shunting around of unused funds. The court argues that such maneuvers circumvent the debt brake enshrined in the constitution. The debt rule had been suspended during the pandemic. The federal government was therefore allowed to take out additional loans above and beyond what the debt brake would have permitted. Transferring these credit authorizations to years in which the funds are no longer needed to deal with the pandemic fall-out is not acceptable, says the court.

Climate protection and debt brake do not rhyme

The court deserves thanks. This is because the ruling forces a fundamental decision on a sustainable financial policy. The Constitutional Court has not questioned the intention of the climate fund at all. On the contrary: in spring 2021, the same court ruled that the protection of citizens' integrity explicitly includes the state's obligation to protect life and health from the consequences of climate change. Climate protection is a constitutional obligation. But so is the debt brake. And this is precisely where there has now been a collision.

The ruling makes it clear that Germany will not be able to cope with future expenditure on climate, defense, an aging society, education, and infrastructure without making more funds available through the regular budget process. Not to mention the rapidly increasing interest burden. The attempt to square the circle has now been exposed as unconstitutional. But even if the court had waved through this budgetary sleight of hand, it would only have bought a little time. This short-sighted hand-in-mouth policy is now off the table.

Structural solution for fiscal policy becomes more urgent

A less dogmatic budget rule is needed

What Germany needs now is an honest discussion on the future of the debt brake. Because if you categorically rule out tax increases (and that is what the coalition agreement does), but at the same time have additional expenditure, the only way to achieve this is through new borrowing. A less dogmatic budget rule seems increasingly unavoidable. Credible measures are needed to ensure that these additional loans can really only be used for investment expenditure. The current ruling has made it clear that the court can credibly fulfill the role of guardian.

There is currently no constitutional majority in parliament supporting a reform of the debt brake. But I believe this is only a matter of time. The fiscal predicaments will only increase: Even today, politicians have only trifling financial wiggle room if they make savings in increasingly painful areas. Purposeful policies are impossible this way.

Dept brake is slowing Germany down

Of course, taxes could also be increased in certain areas, something I had advocated elsewhere and which has not only made me friends. When the ink had barely dried on the 2021 coalition agreement, I pointed out the inherent contradiction between the coalition's ambitions and the resources at its disposal. The Constitutional Court has now forbidden any further muddling through. That's a good thing. It forces parliament's hand to agree on a budget framework that makes Germany fit for the future.