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Sustainable Architecture for Finance in Europe (<https://safe-frankfurt.de/>)

SAFE Finance Blog

Stinginess was yesterday

03/03/2020

Jan Krahen: Do we need a more expansive fiscal policy in Germany and Europe?
The European IGM Economic Experts Panel comes to remarkable results



The spread of the coronavirus is causing turbulence in the international financial markets. Many industries fear serious consequences for the economy and demand economic policy impulses (<https://www.spiegel.de/wirtschaft/unternehmen/industrie-will-schleunigst-impulse-gegen-corona-folgen-a-d8709aa9-80fb-4107-a6b5-2ca0713cfd5f>). This development is intensifying the debate about what role fiscal policy can and should play in the future – in Germany and Europe. For years, the European Central Bank has been supporting the economy in the euro area with its ultra-loose monetary policy. Some experts now see it at the end of its options and suggest a stronger role for fiscal policy: "We must make use of fiscal policy because monetary policy is already very, very accommodative worldwide – and it is uncertain whether we can do more," says Ignazio Visco (<https://www.boersen-zeitung.de/index.php?>

li=1&artid=2020038003), President of the Italian central bank, for example.

The role of fiscal policy is also the focus of this month's European IGM Economic Experts Panel (<http://www.igmchicago.org/european-economic-experts-panel>) of the University of Chicago Booth School of Business, with very interesting results. The panel includes over 50 European economists (<http://www.igmchicago.org/european-economic-experts-panel/european-economic-experts>) who are regularly asked about economic and financial policy issues with a European focus – and I am one of them. The panel participants receive the topics as a thesis statement by e-mail; they can then position themselves, agree with the statement, reject it or take a neutral position. They can also explain their position and rate their vote on a 10-point scale, depending on how certain they are of their position – the following figures from the evaluation (<http://www.igmchicago.org/surveys/german-and-european-economic-policy>) always refer to the answers weighted with these points.

Almost 80 percent of those surveyed support more expansive fiscal policy in Europe

The current survey covers three topics. The first statement is: "Germany's current account surplus is undesirable even from a purely German viewpoint: the country would be better off if, for example, it ran a smaller primary surplus, in turn leading to a smaller current account surplus." One way to reduce the government's primary surplus is, for example, to spend more money. A clear majority of respondents is in favor of this: 78 percent of economists agree with this statement, while only 9 percent are against it.

The second question is about the euro area and the relationship between fiscal and monetary policy: "The Eurozone would be in better shape if fiscal policy were more expansionary, which would allow monetary policy to be slightly less so." Here, too, a large majority of academics agree: 79 percent of those surveyed would welcome a more expansive fiscal policy in the eurozone, while only 5 percent are against it.

The final question brings the scenario of a recession in Europe into play and combines this with a possible European fiscal policy response: "If there is a recession in the Eurozone, it will be essential to have a coordinated fiscal expansion." 87 percent of those surveyed said yes; 9 percent are uncertain, only 4 percent deny the thesis.

I belong to the minority in this survey, which is either undecided or rejects the theses. I would like to briefly explain why this is the case.

Case by case analysis is required

The first thesis on the German primary surplus is not really conclusive in my view: If the European Union is regarded as a single economy, some countries will always have a surplus or a deficit; then it would make little sense to balance the current account by country. As a justification for higher German government spending, I am therefore not convinced.

Concerning thesis 2, too, I am skeptical whether fiscal policy can really relieve monetary policy in any case. Such a policy would have advantages and disadvantages: Some countries have difficulty maintaining their national debt, others not. An analysis on a case-by-case basis is therefore necessary – this would be better than a more expansive fiscal policy in all euro area countries.

Finally, thesis 3 brings into play a coordinated fiscal expansion in the euro area in the event of a recession. In theory, this may be an interesting idea – but in essence, it presupposes European fiscal autonomy, which we have not yet achieved in political life. Achieving it would be the next significant step in the development of the European project. But we are far from that. That is why such coordination will not

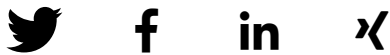
succeed because there are different individual national interests; or it is not even necessary, because all countries are moving in the same direction anyway. In the first case, coordination at the European level is then not justified, in the second case it is not necessary.

Nevertheless and apart from my position: the broad consensus of the economists from many European nations interviewed, who advocate a stronger role for fiscal policy in Germany and Europe, is remarkable.

In this context, I would like to draw attention to the rather controversial discussion on the theses of Carl Christian von Weizsäcker, which he develops in his new book (<https://www.springer.com/de/book/9783658277017>) and in which he also calls for coordinated, extensive fiscal activity given the current low interest rates. At an event organized by the Center for Financial Studies, we recently had an exciting discussion on this subject in the fully occupied lecture hall on the Westend Campus which can be viewed here (https://www.ifk-cfs.de/no_cache/events/detail/termin/event/tx_cal_phpicalendar/2020/02/27/niedrigzinsen_warum_wie_lange_


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