# Facts & Findings

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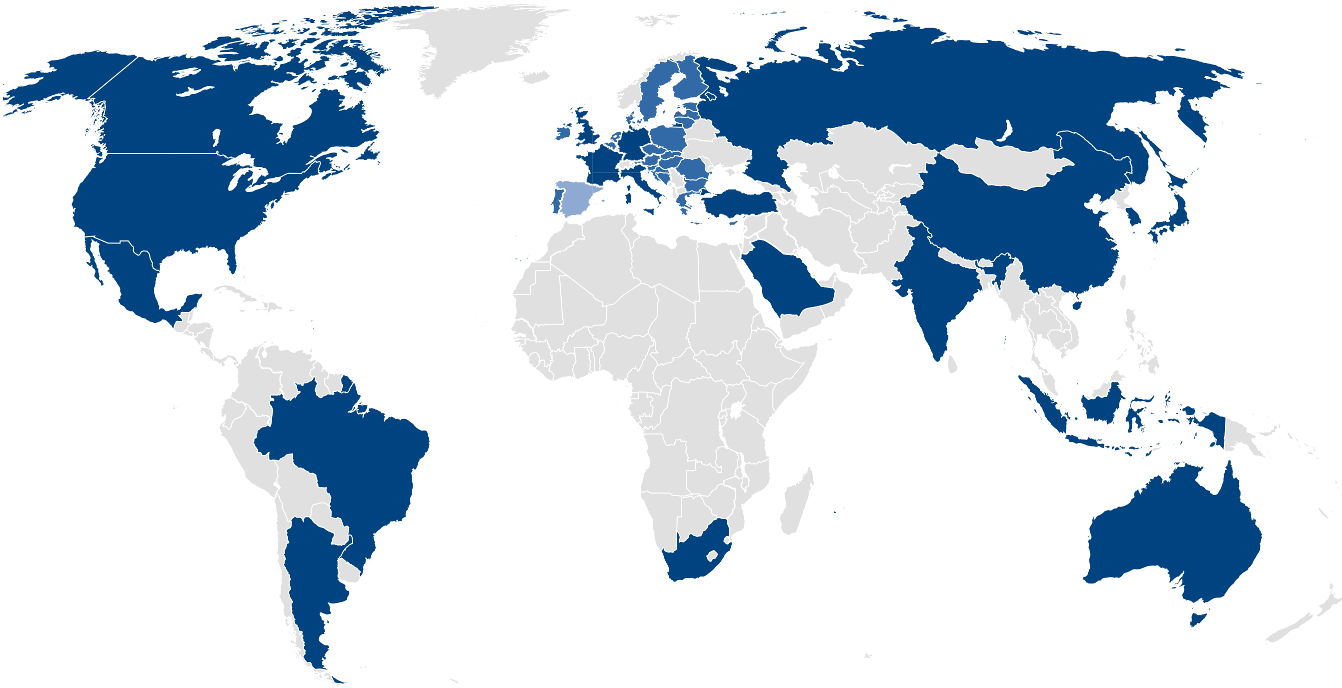

# Germany's Presidency in the G20 (II)

## A Sustainable Growth Pact to Improve Productivity and Crisis Resilience

*Working Group of Young Foreign Policy Experts*

### Key Points

- Despite record low interest rates, the economies of the industrialized countries are nearly stagnant. It is therefore necessary to take measures to stimulate growth in industrialized countries, as well as in developing and emerging countries.

- Measures which Germany should promote during its presidency of the G20 include promoting improved mobility for workers, both internationally and between professions, as well as a joint initiative to increase private and public spending on research and development.

- Additionally, the G20 should build upon European experiences and create more incentives for private investments in strategic infrastructure, as well as agreeing upon plans for a coordinated response to future economic crises.

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## Background

In December 2016, Germany will take over the presidency of the "Group of 20" (G-20) from China. Since the financial and economic crisis of 2008, this forum has brought together the world's leading industrialized and emerging countries at the head of state and head of government level. The presidency gives Germany the opportunity to shape the international agenda for overcoming a wide variety of global challenges. The German government has already announced that its presidency will have three themes: "stability, sustainability and resilience."

In this and two other papers, Konrad-Adenauer-Stiftung's Working Group of Young Foreign Policy Experts makes proposals as to the points which the German government should focus on, as well as ideas for resolving global problems which should be pursued within the G20. In this way, the young foreign policy experts will be helping to shape Germany's international responsibility in a concrete way.

This second paper concerns the promotion of global economic growth. The two others deal with sustainable development policy and the importance of global health for security and stability.

## Introduction

Low economic growth despite historic loose monetary policy

Following an immense growth in wealth as a result of the free market economy and global trade, current economic paradigms in the industrialized countries are generating little economic growth. In the G7 economies, for example, it took an average of five years for wealth to return to 2008 levels, and Italy is still 10% short of that mark. The slow pace of the recovery is all the more surprising in light of the fact that monetary policy in the western world has been looser than ever, a policy which continues undiminished to this day, with the exception of the United States. This suggests the conclusion that monetary policy has exhausted itself as a means of generating economic growth: the money supply is gigantic and interest rates are at record low, but growth has nevertheless been insignificant.

Monetary policy to stimulate economic growth has exhausted itself

In this paper, the Working Group of Young Foreign Policy Experts make four proposals for concrete initiatives and measures by the G20 states to address the structural causes of the weak growth and sluggish improvements in productivity. They call for global cooperation in education, particularly to increase the mobility of workers between countries and professions, aid for innovation and IT, funding infrastructure projects and creating a more crisis-proof global economic order based on the principles of the social market economy.

## 1. Training: Increased Mobility for Workers

Increasing the mobility of workers, both internationally and between professions

The existing difficulties which industrialized and emerging countries are having with respect to finding qualified workers, especially in the technical professions, will become more severe with the digitization trend and the developments in connection with Industry 4.0, as jobs in other sectors are threatened by digitization. The shortage of skilled workers in certain professions will affect all G20 states in the medium term, while other professions will require substantially fewer workers in the future. At the same time, the level of education and the attractiveness of training courses vary widely from country to country. **The goal should therefore be to increase the mobility of workers, both internationally and between professions.**

Common minimum standards with regards to training in technical and digital professions

The definition of common minimum standards by the G20 states, particularly with regard to training in technical and digital professions, would help to bring an improvement on the first point. It would improve international transparency with regard to training content without a fully mandatory recognition process, which would likely be unrealistic for the foreseeable future. These minimum standards could be implemented by the OECD in cooperation with the World Bank. Germany could contribute structures and experiences to this process, particularly with regard to vocational training.

Making professional reorientation possible

More frequent reorientations will be needed over the course of a worker's career in order to prevent an increase in structural unemployment as digitization progresses, and national job markets must be structured and regulated in such a way as to ensure that these programs run as smoothly as possible. Since the digitization of job markets will in all likelihood affect the various G20 member states at different times, the G20 would be an appropriate forum for exchanging experiences with regard to improving the flexibility and efficiency of job markets. In this way, wealth gains due to the digitized economy can be distributed as broadly as possible, in accordance with the principles of the social market economy.

## 2. Innovation: Promoting R&D Together

Networking, automation and artificial intelligence will in all likelihood be the decisive areas of growth in the years and decades to come. Benefiting from this growth will require a competitive IT infrastructure as well as a domestic industry which is capable of developing and manufacturing these kinds of products.

Common target value for R&D spending

Mandatory reporting system to increase transparency

**The G20 states should commit themselves to higher spending on research and development, for which the target value should be three percent of national GDP.** This spending could come from the public or the private sector, and should focus on digital and sustainable technologies in order to spur the innovations which are necessary for future and lasting growth. A mandatory reporting system, including the percentage of digital and sustainable technologies in overall R&D spending, would increase transparency.

Public and private sector together for more innovation

Models in which publicly funded actors work together with the private sector, as has been successfully practiced for years e.g. by the Fraunhofer Society in Germany, are suitable for the accomplishment of goals in accordance with the national industry focus in each case and within existing investment and corporate structures. Tax incentives for private companies can also be created in the form of tax benefits for companies which increase their investments. However, the various states will have to coordinate their approach in this regard in order to ensure that companies do not merely postpone existing investments in order to qualify for the tax benefits, and that the program actually induces companies to make additional investments. More consistent norms and standards could also allow additional economies of scale for coordinated R&D investments.

## 3. Strategic Infrastructure: Create Incentives for Investment

Substantial investments in infrastructure are needed in many countries in order to strengthen global productivity growth. This is true for emerging and developing countries as well as some of the industrialized countries, where public infrastructure has long been neglected. The G20 states should build upon existing initiatives in this area such as the European Fund for Strategic Investments (EFSI) in order to **propose a global strategic investment fund, or multiple regional investment funds.** The targeted use of the public funding can in turn stimulate private investments several times as high, which would be advantageous for two reasons. First, this would mean a substantially higher investment in infrastructure than could be achieved with public funding alone, which would in turn stimulate short- and long-term growth. Second, investors in today's low interest rate environment are searching for investment opportunities which offer stable and predictable returns, and large infrastructure projects are especially suitable in this regard. The need for effective management of these projects is of considerable importance in this regard in order to prevent controversies and unfortunate developments in terms of the relationship with private investors. Developing and emerging countries especially often lack the financial and legal expertise needed to ensure that PPP projects are on the level. An exchange of experiences with regional development banks may help remedy the situation for projects of that kind, and for initiatives like the EFSI as well.

Increasing private investments in infrastructure

Exchanging experience concerning the regulations of PPP projects

## 4. Strengthen Crisis Resilience, Curb Protectionism

The financial and debt crisis confronted industrialized as well as emerging and developing countries with major political and economic challenges. It is in the common interest of the G20 states to ensure that they are better prepared for economic crises in the future and to be in a position to take effective countermeasures. Further coordination in measures of fiscal, trade and monetary policy is therefore indispensable. **Extensive consultations will be required between policymakers, through the finance ministers in particular, as well as between central banks, through the central bank presidents.** A more far-reaching institutionalization of the mechanisms for coordination in monetary and fiscal policy, such as preparing lists of investment projects for each country which could be employed as a coordinated Keynesian stimulus in the event of a crisis, appears to be a realistic goal of Germany's G20 presidency and one capable of achieving consensus, due to the fact that the formats in question already exist. In times when government debt is high and monetary policy has exhausted itself, it is difficult to realize additional potential with regard to fiscal and monetary policy and to reach an agreement as to the right course of action.

Improving coordination during economic crises

Preparing national lists of investment projects

It is therefore all the more important to avoid protectionist tendencies in crisis situations. Protectionism often seems to governments to be the simplest way to protect their economy from damage in the near term. But in the long run, such practices have a negative impact on global development and wealth. The number of protectionist trade barriers has increased sharply since the financial and debt

Trade barriers: one-in, one-out

crisis. **The goal must therefore be to create a mechanism which prevents the continued proliferation of trade barriers while also paving the way towards eliminating barriers in the long run.**

When it assumes the presidency, Germany should therefore propose a **voluntary commitment by the G20 states not to impose any new trade barriers,** including new export restrictions. If a consensus cannot be found for so drastic a measure, a "one in, one out" mechanism, i.e. a system in which new protectionist measures could only be introduced once existing barriers are removed, would be a plausible alternative which would ensure political flexibility and would at least restrain the increasing proliferation of protectionist measures. The WTO could be tasked with reporting on implementation of the voluntary commitment. Strengthening the free and open trade system in this way is a core interest of Germany, whose economy is heavily oriented towards foreign trade.

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