

Jens Weidmann: “A minimum wage has to be depoliticised”

Interview by Dr Jens Weidmann, President of the Deutsche Bundesbank, with Jörg Eigendorf and Sebastian Jost in *Welt am Sonntag*, published in German on 29 September 2013.

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Bundesbank President Jens Weidmann is known as a vocal critic of Southern European policymaking. He is now also urging reforms in Germany – although he has come to terms with some things

Jens Weidmann has clearly shown that he is not averse to conflict. Whenever the Bundesbank President appears in any of the euro-area peripheral countries, he is always the stern uncle. “More reforms” is his mantra. It is therefore not without a sense of vindication that some politicians from Southern Europe will see that the former economic adviser to Chancellor Merkel is now also training his sights on his ex-colleagues in Berlin. In his first interview since the elections to the Bundestag, the 45-year-old central banker did not discuss monetary policy in the narrower sense but talked about economic policy in the broadest sense. That was a first for Weidmann: the Bundesbank’s last major blueprint for reforms dates back ten years.

Mr Weidmann, what parties did you vote for last Sunday?

The ballot is secret for good reasons, and I do not give recommendations prior to the election, nor do I discuss my decision after the fact.

Why do Germans make such a big secret out of whom they vote for, unlike, say, Americans?

You are not asking me as a private citizen but as Bundesbank President. The Bundesbank is well advised, however, to steer clear of party politics.

You’ve rankled some people in Berlin by speaking out on economic policy, even though your actual mandate is to keep prices stable. Do you really need any more enemies?

That is not the point. We speak up in situations where monetary policy is affected. Healthy public finances and sustainable growth are key preconditions for stable money. This is why we also point out problems facing Germany – without, however, laying out a detailed agenda of reforms.

But the Bundesbank already did that once before, in 2003. Germany was regarded at the time as the “sick man” of Europe. It is now held as a model worldwide. If one looks at the 2003 proposals, though, not many have been implemented – apart from those regarding the labour market and pensions.

Well, those are, after all, two extremely central policy areas, and it is not least thanks to these reforms that our economy is doing so well compared with other countries. But that is precisely what makes it tempting to avoid tackling still-existing deficits. Unfortunately, reforms are often not carried out when the need for action is still predictable but only after all other options have vanished. The costs are then usually higher.

In the light of the good situation, many see your criticism as the typical attitude of a Bundesbank killjoy.

Former Federal Reserve Chairman William McChesney Martin once remarked that the central bank’s job was “to take away the punch bowl just as the party gets going”. As an independent central bank, it is also our role to voice unpleasant findings.

You were the Chancellor’s economic adviser for five years. We would now like to give you the opportunity to list all the reforms of the past two legislative periods.

There are quite a few ...

We are sitting on tenterhooks.

Federal structure reform and the introduction of the debt brake, corporate tax reform – with some caveats – and, for instance, also the stabilisation of pension insurance through, amongst other things, the increase in the retirement age ...

Giant leaps forward look different.

That doesn't mean, though, that retirement at 67 is not important. The Agenda 2010 reform programme was also controversial in its day. Today we are reaping the dividends – unemployment is lower, employment, including among older workers, is higher, and the social security scheme is in better shape financially. Another point is also important, though: in 2013 Germany will have a balanced government budget for the second consecutive year. Unlike in the past, windfall revenues and underspending have been used, at least in large part, to cut deficits. However, there are still many unresolved problems.

For example?

We have to ask ourselves again and again where our place in the global economy is going to be. How can we preserve our prosperity in a globalised world? How do firms remain innovative, flexible and thus competitive? How do we deal with demographic change and its implications for the labour market? Where will affordable energy come from? Or think of the debt level, which, at more than 80% of gross domestic product, is too high.

And could continue to rise, judging by the pre-election promises. Pretty much all parties want to pour more money into infrastructure.

Investment in public infrastructure can also make sense if the government uses this to alleviate bottlenecks in a targeted manner. However, that should not be a carte blanche to run up new debt. Not nearly all investments pay for themselves through increased growth alone.

The SPD and Greens, in particular, simply want to raise taxes in order to fund the additional expenditure. Would that be okay?

There are two things I can say as an economist. First: those calling for new government expenditure should also show how it would be funded. At all events, in the past debt financing was relied on too often. Second: rising expenditure tends to curtail growth, and all the more the higher the tax burden already is. This means that, when calls are made for new expenditure, existing spending has to be subjected to scrutiny.

Where do we need higher investment?

There is no one-size-fits-all answer to that question. Investment is not an end in itself; each project needs to be examined individually in terms of its benefits for society. Existing bottlenecks have to be alleviated in infrastructure, roads, railways and shipping lanes. The educational system in particular needs to be addressed; in individual cases we are either living off our assets or setting the wrong emphasis. But there is certainly no nationwide investment bottleneck – the need for investment varies widely from region to region.

We already redistribute large sums of money between Federal states today. Do we not need a sort of "Maastricht plus" within Germany – that is, to transfer greater responsibility for budgets to the cities and Federal states?

Indeed we do need actors at all levels to bear independent responsibility for revenue and expenditure. But there is also a shared supraregional interest in certain tasks. Moreover, binding corrective action should be taken earlier in future if Federal states or municipalities slowly threaten to slide into distress from which they cannot extricate themselves. However, in principle we have more opportunities to push through rules in our federal system than at the European level.

Which makes us very pessimistic about Europe. Even the better opportunities for intervention here cannot prevent Berlin or Bremen from being kept more and more on life support.

Undoubtedly mistakes were made in the past. The debt brake, which will be binding on the Federal states with effect from 2020, and the forthcoming federal structure reform in 2020 are therefore important milestones. Fiscal policymakers will need to start making preparations for it.

We noticed that the speech you delivered in Düsseldorf on Wednesday omits the very topic which is giving the industrial sector the greatest worries: the high costs of the energy U-turn.

At a cocktail reception, it is possible to discuss everything, but not in a 30-minute speech. But I did mention energy policy briefly, for it must be clear to us that energy supply is a key location factor. And, in addition, the sharp rise in “fracking” in the United States will by itself be enough to change the energy market significantly. This will have implications for global competition. If we want to rely, in particular, on alternative sources of energy, this is a pivotal decision for society. However, we should bear the various implications in mind. Households and enterprises will end up having to pay for expensive energy. Consumption will have to be cut back elsewhere, and enterprises will have to become competitive elsewhere.

How can that be done?

Better trained employees and more efficient production structures can make a contribution. The functional viability of the labour market is also a key starting point.

It is precisely there that relatively many reforms have been undertaken to make labour more flexible.

Correct, and these reforms have also had an impact. However, the small segment of atypically employed persons – low-paid part-time workers, temporary workers or workers on fixed-term contracts – is being asked to demonstrate above-average flexibility.

Are you against low-paid part-time work and temporary jobs?

No, it's not about abolishing these instruments, but about making the labour market more flexible in the mainstream and thus distributing the adjustment requirements more evenly. Such a labour market is better able to deal with structural shifts, such as if certain sectors shrink while others are looking for labour. We are currently seeing, after all, a fairly noticeable increase in regular jobs which are subject to social security contributions.

The Bundesbank President is now going after job protection? Now that is sure to make you popular.

I'm not at all about getting rid of job protection. What counts is the overall package: firms need sufficient scope for action and certainty of planning, while at the same time workers need sufficient protection. Reducing job protection would have to go hand-in-hand with improved safeguards for people who lose their jobs.

If the election programmes are to be believed, the parties see the solution more in instituting minimum wages. That will not make it easier to find a new job.

I remain sceptical about minimum wages. They are a very imprecise instrument for fighting poverty, for example, and they largely entail risks and problems for future employment trends. It is less a question of whether minimum wages will be associated with layoffs and more of whether they will prevent new hiring or – in the case of sector-specific minimum wages – unwelcome competition is crowded out.

Wouldn't a general minimum wage then be the lesser evil?

A minimum wage set by policymakers will surely tend to rise more sharply than would be called for in terms of labour market policy. This would harm precisely those whom it is

intended to protect – low-skilled workers who have more difficulty than others finding work. If a general minimum wage is to be introduced anyway, I urgently propose that it be de-politicised. Taking the United Kingdom as a case in point: the legal minimum wage is set not by parliament or the government, but by an independent commission.

Are you already bracing yourself for higher taxes?

That is ultimately a political decision, though the negative impacts on growth of higher taxes have to be taken into account. All in all, however, we should instead increase the incentives to work in order to counteract the age-related decline in the labour force. Incentives to work for low earners, older people and secondary wage earners are possible starting points.

Then both the childcare supplement and the splitting of income taxation between couples ought to be abolished, since they both discourage going to work. No government has dared touch those hot potatoes.

I know that those topics are both hot potatoes. However, we shouldn't throw everything overboard only because it reduces the incentive to work. All of the individual programmes ultimately have social policy objectives. But it pays to at least be aware of the side-effects. The importance of these side-effects is growing in the light of globalisation and demographic change.

Do you truly see the opportunity for far-reaching change to occur? Ever since Agenda 2010, society seems to have become rather anti-change.

Things are naturally more difficult now because the challenges are less obvious than ten years ago. That is precisely why I am stimulating this debate.

Angela Merkel may be many things – but not a reformer, if most voters do not want reform.

I have the impression that the current chancellor, like her predecessors, is looking out for the country's best interests. And it is also the job of policymakers to convince the public of the need to take the path that policymakers regard as being correct.

Is Weidmann the central banker not keen on re-entering politics one day – to advance all the policy ideas in your head?

I work for the largest central bank in the Eurosystem, and we have an important mission for everyone in Germany and Europe: price stability. In fulfilling our mission, we are shaping continuous change in Europe, and we are constantly evolving as an institution. That is an exciting and challenging task, one that I enjoy very much. I have no desire to go anywhere else.