

PRESS RELEASE

Shaping the Transformation: Education, Digitalisation and Sustainability

- Multiple supply-side bottlenecks are slowing down the recovery. The German Council of Economic Experts (GCEE) expects the gross domestic product (GDP) in Germany to rise by 2.7 % in 2021 and by 4.6 % in 2022.
- Fiscal and monetary policy should be normalised, the conditions for private investment improved and future-oriented public-sector expenditures prioritised.
- Extensive investment in education and reforms are necessary to ensure that children and young people can catch up on the education that they missed during the pandemic and to ensure greater equality of opportunities. Continuing professional development should become a firmly established part of working life.
- A coherent strategy and action plan, such as steps to secure access to data and technologies, need to be implemented in order to unlock the potential of accelerated digitalisation.
- If the targets of the Paris climate agreement are to be met, there is an urgent need for greater international cooperation. A more equitable sharing of the cost, collaboration on technology and the formation of a climate club are key elements of international climate policy.

Wiesbaden, 10 November 2021 – The transition to a green and digital economy will profoundly change the German economy. Domestic action plans and strategies must be developed in a European and global context in order to address the challenges effectively. Lifelong learning and education need to be strengthened. Accelerated digitalisation can help to reap substantial amounts of untapped potential. Sustainability needs to be ensured in various dimensions. Combating climate change successfully calls for international cooperation. Increased private and public-sector investment needs to be mobilised for the transformation and the improvement of productivity. For all the above, fiscal sustainability needs to be assured. The German Council of Economic Experts (GCEE) discusses these topics in its Annual Report 2021/22, which it handed over to the German government today.

The recovery of the German economy seen in summer this year has continued but is being held back by a variety of bottlenecks on the supply side. Economic growth should continue to pick up, provided that industrial output and consumer demand for services normalise next year. The GCEE has lowered its forecast for 2021 and now expects German GDP to rise by 2.7 %, followed by strong growth of 4.6 % in 2022. The pre-crisis level from the fourth quarter of 2019 is likely to be reached again in the first quarter of 2022. There is great uncertainty about how the economy will perform going forward. Renewed health policy restrictions or longer-lasting supply shortages could take a heavy toll on the recovery.

The sharp rise in global demand has led to high commodity and energy prices and supply shortages. This is likely to drive Germany's already elevated consumer price inflation to 3.1 % this year. Next year, it could drop back down to 2.6 %. Longer-lasting supply shortages, higher wage

settlements and rising energy prices pose a risk that the temporary factors that are driving up prices may lead to persistently higher inflation rates.

“Fiscal policy needs to normalise following the crisis. Public finances have to be made more sustainable and crisis-resilient again,” says Volker Wieland, member of the GCEE. *“The best way for monetary policy to contribute to sustainable economic growth is by maintaining price stability. A normalisation strategy should be published for this purpose.”*

To succeed in the transformation, substantial private investment is needed in Germany. This calls for framework conditions that encourage growth. Future-oriented public spending should be prioritised and the many different non-monetary obstacles have to be removed. Examples include the simplification of planning, approval and legal processes and the pooling of capacity and expertise in institutions that operate independently. In its Annual Report, the GCEE presents two approaches for discussion to mobilising private and public-sector investment in the context of the debt brake and further applying and reforming Europe’s fiscal rules.

Education is paramount if the transformation is to be achieved. The German education system is still not doing enough to compensate for inferior conditions from the beginning faced by children from socially disadvantaged families. *“Inequalities in education have worsened during the coronavirus crisis. This makes extensive investment in education even more important, as this is the only way that children and young people can catch up on the education that they missed during the pandemic,”* explains Achim Truger, member of the GCEE. Measures that could help include greater use of individual and small-group tutoring in schools and the use of digital learning programs during lessons. In addition, digitalisation of the school system should be promoted.

According to preliminary findings, inequalities of disposable income did not increase during the coronavirus crisis due to discretionary and automatic fiscal measures, such as the payment of a short-time working allowance. However, people in marginal employment, low-skilled workers and the self-employed were hit particularly hard.

Unlike in previous recessions, the number of business closures fell and fewer employment contracts were terminated. This means that the reallocation dynamics declined overall. A substantial catch-up effect is currently not anticipated. To support the transformation, the business environment for start-ups, orderly market exits and labour mobility needs to be improved. Continuing professional development should become an integral part of working life. The work incentives for second earners should be boosted, for example by reforming the taxation arrangements for couples and expanding childcare provision.

Digitalisation has accelerated during the coronavirus pandemic. The extent to which this will raise productivity depends heavily on the business environment. To increase the availability of data as a production factor, the conditions for the unrestricted sharing and shared use of data must be improved. *“Germany needs a coherent and overarching digital strategy at national level that prioritises actions, ensures greater integration between the various initiatives and avoids duplication of structures,”* says Monika Schnitzer, member of the GCEE. It is important to address cyber-risk across the EU. Moreover, better consumer protection standards are required on online marketplaces.

Progress with international cooperation on climate change has to be addressed as a matter of urgency if the targets of the Paris climate agreement are to be met. One approach would be for

Germany to form a climate club with its major trading partners, such as the US and China. A more equitable sharing of the cost by means of transfers from advanced economies to developing countries and emerging markets, the establishment of climate-friendly value chains and collaboration on technology are important tools for international cooperation on climate change. *“Large-scale private investment will be needed worldwide. Combating climate change requires new technologies to be brought to market-readiness and made available globally,”* explains Veronika Grimm, member of the GCEE. International investment treaties play a key role in mobilising these investments. The production and trade of energy produced from renewable sources may open up new business opportunities for businesses in Europe.

Shaping the transformation: possible courses of action

Overview of the action steps discussed in the Annual Report 2021/22

Empower the economy for transformation	Create a suitable environment for the transformation	Seize the opportunities of the transformation
Education <ol style="list-style-type: none"> 1. Reduce learning and development gaps ↗ ITEMS 343 FF. 2. Advance digitalisation in the school system ↗ ITEMS 365 FF. 3. Expand early-years education and childcare ↗ ITEMS 360 FF. 	Macroeconomic environment <ol style="list-style-type: none"> 12. Make public finances more sustainable and crisis-resilient ↗ ITEM 100 13. Communicate a normalisation strategy for monetary policy ↗ ITEMS 181 FF. 	Innovation <ol style="list-style-type: none"> 21. Establish bilateral technology partnerships ↗ ITEMS 583 FF. 22. Improve the conditions for sharing and using data ↗ ITEM 474 23. Digitalise public services ↗ ITEM 203
Education and training, skilled labour <ol style="list-style-type: none"> 4. Embed continuing professional development in the education system ↗ ITEMS 311 FF. 5. Boost the incentives for further training for low-skilled workers ↗ ITEMS 306 FF. 6. Ease the transition to company-based vocational training ↗ ITEM 299 7. Help workers to move between occupations and regions ↗ ITEMS 432 FF. 8. Boost the work incentives for second earners ↗ ITEMS 317 FF. 	European Union <ol style="list-style-type: none"> 14. Deepen the European single market ↗ ITEMS 187 AND 496 15. Ensure technological sovereignty ↗ ITEM 496 16. Implement structural reforms as a part of the EU recovery and resilience plans ↗ ITEM 190 17. Strengthen cross-sectoral, cross-regional carbon pricing ↗ ITEM 614 	Investment <ol style="list-style-type: none"> 24. Create a consistent environment for private investment ↗ ITEMS 195 FF. AND 560 25. Expand public infrastructure for a digital, carbon-neutral economy ↗ ITEMS 198 F. 26. Prioritise public-sector investment in the future ↗ ITEMS 218 AND 234 27. Remove the many different non-monetary obstacles ↗ ITEMS 200 FF.
Start-ups and market exits <ol style="list-style-type: none"> 9. Improve the availability of venture capital ↗ ITEM 427 10. Adjust the insolvency process for smaller enterprises ↗ ITEM 420 11. Provide better insurance for the self-employed ↗ ITEMS 313 FF. 	Transparency <ol style="list-style-type: none"> 18. Strengthen evaluation in the education system ↗ ITEMS 376 FF. 19. Increase the transparency of public-sector spending ↗ ITEMS 205 FF. 20. Evaluate measures that were introduced due to the pandemic ↗ BOX 25 	International cooperation <ol style="list-style-type: none"> 28. Step up international cooperation on climate change ↗ ITEMS 554 FF. 29. Establish standards for measuring and estimating carbon emissions ↗ ITEM 577 30. Increase competition in digital platform markets ↗ ITEM 480

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The item references in the chart above refer to the full text of the Annual Report 2021/22.

The German Council of Economic Experts (GCEE) provides support to policymakers and the general public on questions and matters of economic policy. It was founded as an independent body in 1963 and currently consists of four members: Professor Veronika Grimm, Professor Monika Schnitzer,

Professor Achim Truger and Professor Volker Wieland, Ph.D. By publishing regular reports, the GCEE aims to help the general public and decision-makers in politics, business and society to form a reasoned opinion on economic policy developments in Germany.

Further information on the German Council of Economic Experts and its publications are available at www.sachverstaendigenrat-wirtschaft.de/en or follow us on Twitter [@GCEE_en](https://twitter.com/GCEE_en).

Press contact:

Nadine Winkelhaus

Media and public relations

Phone: +49 611 753110

presse@svr-wirtschaft.de