Decaying capital. How public investment is undermined by a financialized approach to saving in Germany

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Abstract

This paper argues that the statistical metrics commonly used to monitor public finances in general, and saving in particular, have an inherent bias against public investment. The metric customarily viewed as ‘public saving’, is the budget surplus (net lending), even though net lending it is not saving, but saving minus investment. It introduces a cognitive bias: it suggests that accumulating physical capital decreases saving, while it is actually a form of saving. The paper traces this disconnect and its implications, first in a theoretical setting, then investigates how it is mirrored in discourse through two policy debates – on accounting methods and on fiscal rules. The misconstrued notion of saving is a standard shortcoming of the policy discourse as well as public finance statistics, but it is particularly prevalent in the European Union, where the problem of the decaying public capital stock, underinvestment in physical and digital infrastructure, has been front and center in recent years. As the largest EU economy and the loudest proponent of fiscal discipline, Germany is a critical case. In many ways, it is also the most puzzling one: a high-tech manufacturing powerhouse, with shocking infrastructure gaps. Germany’s ordoliberalism, ideological commitment to ‘frugality’ and deep cultural inclination towards saving has a rich theoretical literature, but the bias against storing wealth in physical capital often remains unaddressed.

Keywords: saving, investment, ordoliberalism, cameralism, Germany

Introduction

“*A federal fiscal policy oriented towards balanced budgets is ill-advised. ... It would be fatal to let the ‘schwarze Null’ block future-oriented investments.*”[1] This is not a quote from a left-wing pamphlet – this is the organization of German industrialists tearing into overly strict budgetary rules on the pages of the country’s main conservative daily before the 2021 federal elections. The episode sheds light on a thoroughly puzzling dynamic. Germany’s industrial lobby (often portrayed as close to omnipotent), has been openly advocating for looser purse strings to tackle the country’s dire public investment gap, yet policymakers did not budge.

[1] The criticism was directed at the Union parties, who repeated their longstanding commitment to the ‘black zero’ in their 2021 election manifesto. BDI gegen „schwarze Null“ im Bundeshaushalt, Dietrich Creutzburg, Frankfurter Allgemeine Zeitung, 12.07.2021 https://www.faz.net/aktuell/wirtschaft/bdi-gegen-schwarze-null-im-bundeshaushalt-17432798.html

Germany's investment gap is front and center in the public discourse. There are ample angry media reports about chronically unreliable rail provider Deutsche Bahn, the dismal state of the broadband network, perennial closures of motorway bridges holding up traffic, or dilapidated school and hospital buildings. It is clear that the country's investment shortage is a long-term impediment to competitiveness. According to polls by the German Economic Institute (IW), four out of five companies say their activity is affected by deficiencies in infrastructure (Puls and Schmitz 2022). Meanwhile, the German state was running structural budget surpluses for a better part of a decade, up until the COVID-19 shock. For most of these years, net investment was negative, meaning it did not even cover the wear and tear, while politicians from both sides of the ideological spectrum took pride in their fiscal frugality. So why did policy swerve so far away from the explicitly articulated interests of citizens and businesses?

This paper argues that a key to this contradiction lies in the fallacious understanding of *saving*. Through a critical deconstruction, the analysis shows how our conventional understanding of saving carries a narrow, overly financialized meaning, detached from its economic substance. The core difference is that the financialized approach, and the statistical metrics attached to it, does not account for physical capital as a form of saving, and it thereby undermines public investment. The analysis lays out how this narrow approach disregards physical assets, and equates public sector saving with net (financial) lending or a budget surplus, even though net lending it is not saving, but saving *minus investment.* A focus on balanced budgets is supposed to prompt governments to save – but it also prompts them to squeeze investment.

The core of the misunderstanding is that in everyday language, saving is often understood as income *not spent*. But in economics, it means income *not consumed*. The misconstrued notion of saving is (fair to say) a standard shortcoming of the policy discourse as well as public finance statistics– but it is particularly prevalent in the European Union, where the problem of the decaying public capital stock has been front and center in recent years (Sandbu 2022). As the largest EU economy and the loudest proponent of fiscal discipline, Germany is a critical case. It is in many ways, it is also the most puzzling one: the strongest economy of the EU, a high-tech manufacturing powerhouse, with shocking gaps in physical and digital infrastructure (Roth and Wolff 2018).

The paper zeroes in on this disconnect and its implications, first in a theoretical setting, tracing the disconnect between the financialized metrics of saving, as opposed to the economic meaning of the term. Then, it goes on to investigate how this is mirrored in German policy discourse, taking two policy debates as short case studies: the (somewhat overlooked) debate on the German cameralist accounting tradition versus double-entry bookkeeping (see Sternberg 2020 for an excellent short overview), and the much more publicized one addressing whether or not investments should be counted into budget deficit rules.

The article aims to contribute to two strands of the literature. Firstly, while Germany's ordoliberal economic thinking has gained much scholarly attention (e.g. Blyth 2013, pp. 132–143, Bonefeld 2012, Matthijs 2016, Young 2014), especially in the wake of the Eurozone crisis, it has yet to critically reflect on the fallacies and measurement problems around the concept of saving –

some of which fit very oddly with the main tenets of ordoliberalism. Pointing out these inner contradictions do not challenge the notion that ordoliberal ideas have power and influence over policymaking in Germany (and the entire EU). As Jacoby (2014, p. 72) sharply observes, "*[o]rdoliberalism is an incomplete theory of economic life, whose most important insights and axioms are used quite inconsistently in the German debate*." It rather adds another layer to the ordoliberal preference for rules to force up saving, highlighting the unspoken emphasis on *financial* saving. Secondly, the paper follows the research agenda aiming to critically assess the politics of economic statistics (Mügge 2022, Mügge and Linsi 2021, Mügge 2019), and look into the manifold biases and misconceptions baked into the efforts to capture and measure government savings. Starting from the deconstruction of measurements is a very fruitful endeavor, as it can add important insights about the underlying economic ideas.

The curious disappearance of physical capital from 'moral saving'

The virtue of saving is deeply engrained in German culture and the national psyche. Marcel Fratzscher (2022, pp. 37–43) delves into this rich history, all the way back to the first Sparkasse established in Hamburg in 1778. From the very beginning, saving has been seen as a virtuous and commendable practice both on the individual and social levels: as a means of safeguarding against unforeseen emergencies, poverty or loss, as a powerful symbol of individual responsibility, or as a way to deliver generational fairness. This strongly anchored, multifaceted social value lent itself for instrumentalization by politics: among other uses, politicians framed saving as a patriotic duty to fund successive war efforts through war bonds (Kriegsanleihen).

It is unclear, however, when and how saving in physical capital fell out of the 'moral' category. What makes it all the more puzzling is that investments were actually strongly weaved into the political appeal of austerity. As Blyth notes (2013, p. 135 emphasis added)–

> Critical throughout Germany's development has been the role of the state in suppressing consumption and increasing savings to provide adequate pools of capital for large-scale industrial investments … As such, the mantra of Erst Sparen, Dann Kaufen (first save, then go shopping) to save *and invest* before consuming … formed the austere core of German economic thought.

The moral appeal of saving is often linked to a microeconomic analogy in (German) political discourse, likening state budgets to frugal housewives (Matthijs and McNamara 2015, Haffert 2016, Jacoby 2020). The main reason these parallels are misleading is their disregard towards fallacies of composition. The paradox of thrift, as John Maynard Keynes pointed out, is that one's spending is another one's income. So if all want to save at the same time, no one will be able to save, since there would be no income to save from. Political economists have documented how microeconomic analogies led governments astray in fiscal policy, the Eurozone crisis of the early 2010s being a prime example.

However, in this case, it is *not* the microeconomic analogy that introduces the cognitive bias. On the contrary, making sense of the investment gap is the rare case in macroeconomics, where a

microeconomic analogy would be helpful, because neither households, nor firms tend to only concentrate on their financial net worth (excluding physical assets). When a family takes on mortgage debt to buy a home, they normally would not treat the cost as a one-off expense that wipes out their savings. They would rather interpret their savings to be 'stored' in a physical asset, and usually expect that asset to increase in value. When a firm takes on a loan to invest in a new technology, i.e. buy and install new, more efficient machinery, the value of the machinery enters their balance sheet on the asset side, and the firm's net worth does not decrease. Again, the capital investment is expected to yield returns.

There are reasons for the prevalence of this financialized approach. Non-financial assets are more difficult to value and measure, the government rarely has an 'inventory' of bridges, airports, motorways and the likes. Also, non-financial assets are illiquid.

However, the opposite case can be argued just as (or even more) convincingly: physical assets are associated with inherent value in a way financial assets are not. Because of the illiquid nature of physical assets, storing public wealth in them is the ultimate disciplining device– a transfer to future generations that can only be undone in a very cumbersome way. While financial assets can be sold off at any time, physical capital like infrastructure is quite literally set in stone.

The budget balance as the metric of saving

How do political actors define and understand saving? Interestingly, the liberal parliamentary group (FDP) explicitly asked this from the federal government in a written question submitted in 2008. It was an important point in time, right before the adoption of the constitutional debt brake.

> *Question: Saving, according to 'Der Brockhaus' [a German encyclopaedia], is "forgoing the use of income for current consumption in favor of future consumption or long-term wealth accumulation." (...) To what extent has the federal government practiced [this] since 2005?*
>
> *Answer: The expression [cited above] is not a commonly used definition in public finance. Rather, the terms "deficit" or "net borrowing" and "surplus" are used for government borrowing and saving.*[2]

The exchange is a piece of supporting evidence to the narrative disconnect. The definition cited in the question is actually a good encapsulation of the economic logic: saving is income not consumed. From the wording 'long-term wealth accumulation,' it is easy to associate to physical assets. The government's answer, however, jumps to a financialized definition: saving is equivalent to the budget balance.

[2] "Antwort der Bundesregierung auf die Kleine Anfrage der Abgeordneten Dr. Volker Wissing, Dr. Karl Addicks, Christian Ahrendt, weiterer Abgeordneter und der Fraktion der FDP – Drucksache 16/9849 – Das Sparen der Bundesregierung" https://dserver.bundestag.de/btd/16/099/1609975.pdf

PUBLIC SECTOR	WHOLE ECONOMY
Rev	Y^{disp}
– G	– C
S^{gov}	**S**
– I^{gov}	– I
net lending ^{gov} (ESA budget balance)	**net lending** (CA+KA)

Figure 1. Net lending in the national accounts

The budget surplus (net lending) is indeed the most commonly used metric associated with government saving. So let us examine what exactly it captures. Figure 1 traces the difference, using the European System of Accounts (ESA) notations in the national accounts equation.

In case of the public sector, saving (S^{gov}) is the government's revenues from taxes and other sources (Rev) less government consumption (G). Net lending, or the government budget balance is not saving, but saving *minus investment*. From this, it follows that investment does not decrease saving (in fact, it is a form of saving), but it does decrease net lending. As shown on the figure, the difference between saving and net lending is exactly investment. And this introduces a cognitive bias– it suggests that if a government accumulates physical capital, it decreases public saving, even though, building physical capital is actually a form of saving.

We can also capture net lending and saving on the level of the whole economy (including households and firms). Here, it is the current account balance that is often associated with virtuous saving (Polyak 2022), even though, analogously to the public sector, a CA surplus is not saving but an excess of saving over domestic investment.

This approach has shown the state's saving flows, i.e. the amount of savings in a given period of time (usually a year). But how about public saving stocks? The metric showing the sum of all past saving flows is the government's *net worth*, including all financial and non-financial assets (minus liabilities). This requires a valuation of public assets, such as highways, bridges, ports or forests, which is a complex exercise. In the German case, this information is unavailable. As Sternberg (2020) sharply observes: "the German state does not know its books." In the government's asset statement of prepared for the Federal Court of Audit, auditors have voiced their criticism on this issue –

> The asset statement still only partially reflects the assets and liabilities of the Federal State. For several years, the Federal Ministry of Finance (BMF) has been gradually adding to the figures. However, important items are still missing, others

> have not yet been recorded in terms of value. These include real estate assets, infrastructure assets and movable property. The BMF intends to continue to complete the asset account. … This follows a long-standing request from the Federal Audit Office. (Bundesrechnungshof 2022, p. 4)

The net worth of the government is not a widely used concept, a full public balance sheet of a country is not a widely available metric. There are countries where it is, however – New Zealand, Australia and Iceland were among the first adopting the approach and preparing estimates, and Eurostat has also requested EU governments to do so. The Netherlands, for instance (a country similar to Germany in its ideational stance), prepares a highly sophisticated one, with a detailed breakdown of non-financial asset categories from 'civil engineering works' (roads, railways, bridges, highways, airport runways, harbours, tunnels) to 'oil and gas reserves.' (Statistics Netherlands 2022) While valuation problems do indeed emerge, it is a better guide for sound financial management.

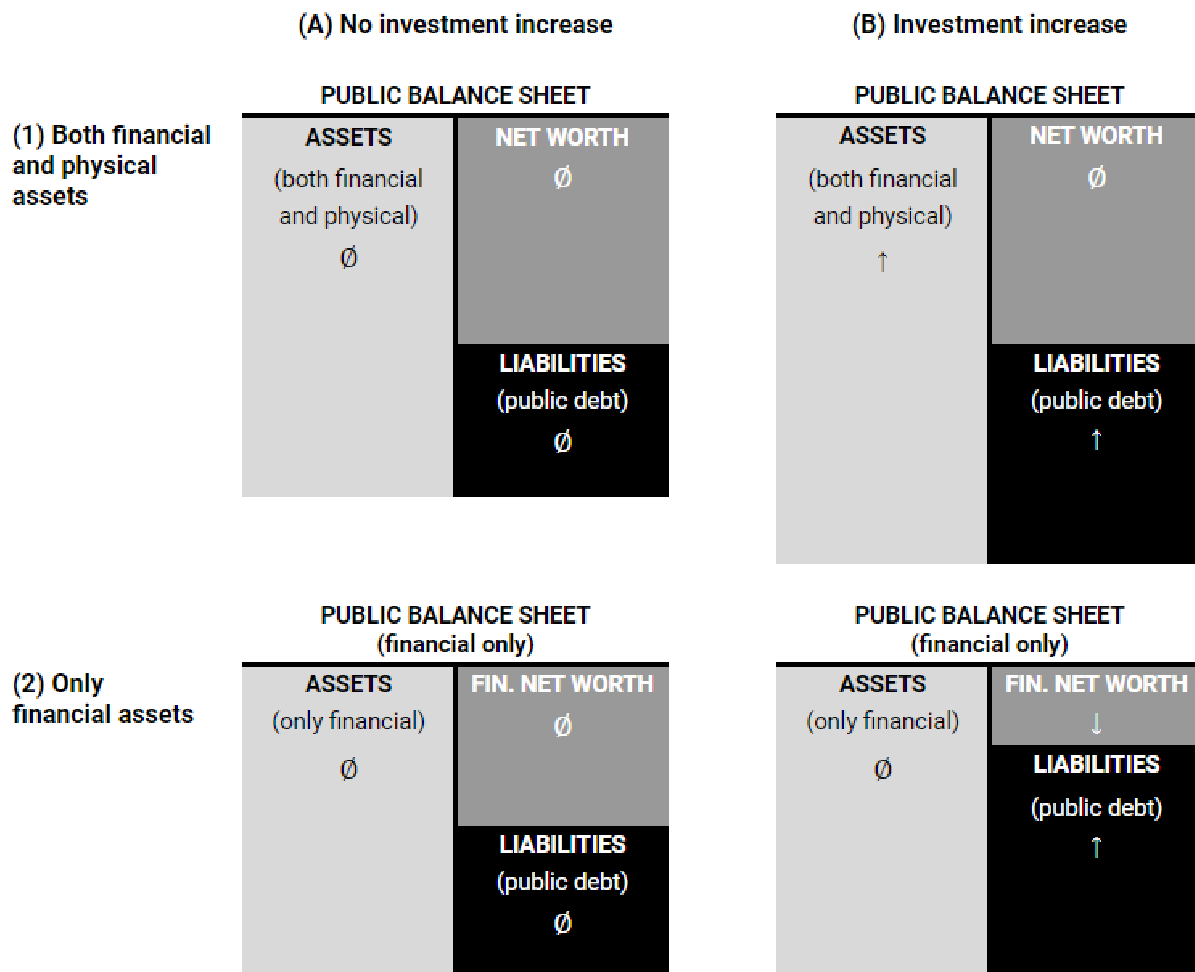

Figure 2. Public balance sheets

A public balance sheet allows to draw very different conclusions. For instance, if public policy has its mind set on saving, issuing debt for public investment should not be a worry. Accumulating physical capital is a form of saving, so in the balance sheet, it offset the issuance of public debt. Net worth remains unchanged, but the balance sheet expands. Blocking debt-financed investment is not an inclination towards saving – it is rather an ideological preference towards a 'leaner' public balance sheet ('schlanker Staat'). The quick stylized representation in Figure 2 captures this underlying logic.

In the first approach, both financial and physical assets are accounted for. So as a debt-financed investment increase occurs (1B), liabilities increase, but assets increase by the same amount. Net worth remains unchanged, implying no decline in saving. Debt-financed investment only decreases saving (and result in a smaller financial net worth), in the second approach, where only financial assets enter the asset side, and physical capital does not (2B).

Cameralism versus double-entry bookkeeping

There are two distinct accounting methods commonly used for recording transactions: cash accounting and accrual accounting. In Germany, the debate centers around the terms Kameralistik (cash accounting) versus Doppik (double-entry bookkeeping), roughly corresponding to these methods (Christofzik 2019, Sternberg 2020). Public administration has traditionally used the cash-based system, while in the private sector, the accrual-based system is the norm. However, in recent years, there has been a global shift towards accrual-based accounting also for public entities. Also in Germany, three states (Hesse, North Rhine-Westphalia, Baden-Württenberg) and several municipalities have moved to the accrual basis, although the federal government sticks to cameralism (Kirchmann and de Clerck 2021).

The main difference between the two systems is *the time* when transactions are recorded. Cameralistic accounting tracks cash movements, recording the point in time when cash is received or paid out. This has important implications for investments. For example, if a public body invests in a physical asset, the expense is frontloaded: the full cost is included in the year of purchase, and there is no depreciation in the following years. In contrast, accrual-based accounting records expenses as they are incurred, independently of cash movements. Spending on a physical asset would not be recorded directly at full cost, but gradually, as it depreciates over their lifecycle. The cameralistic cash-based approach is a direct reflection of the fallacy outlined above: it treats spending on a physical asset equivalently to spending on cosumption.

Accrual-based accounting requests three financial statements from companies (and any other entity)–

1. an income statement or profit-loss statement recording revenues, expenses, profits and losses over a period of time (usually a year);
2. a (cameralistic) cash-flow statement;
3. and a balance sheet, providing a snapshot of asset and liability stocks.

Note that this approach also includes a detailed record of cash movements, but additionally, also two other statements that give a fuller picture about the financial performance of the entity. While cashflows only shows the change in liquid (financial) assets, income statements record changes in non-financial assets as well. It is therefore the income statement that captures the saving flow, while the balance sheet (as shown above in Figure 2) captures the saving stock (net worth).

The idea to create a European Union-wide harmonized system of accrual-based accounting has gained currency after the financial crisis, and has been taken on board by the European Commission. The European Public Sector Accounting Standards (EPSAS) project to generate EU-wide harmonized accrual data has kicked off in 2013, but progress has been fairly slow and uneven (Cohen *et al.* 2022) – in large part, because it has met the fierce resistance of German officials and policymakers.

In a 2017 report, Germany's Bundesrechnungshof (Federal Court of Audit) outlined its grave concerns about the EPSAS project, in no uncertain terms. They stated that "*the Federal Government should use its political weight at the European level to prevent the mandatory introduction of EPSAS in Germany*." The report also cited the concurring position of the Federal Ministry of Finance, who pledged to closely follow the EPSAS process, making sure that "*German interests are taken into account*." (Bundesrechnungshof 2017, p. 3)

But what exactly are these German interests? Among many concerns – such as the significant costs of adopting a new system – auditors argued that the EPSAS would "*open up additional accounting choices, options and leeway for member states in recognising individual budgetary items*." (Ibid. 2017, p. 2, Russell 2017)

The modern debate over Kameralistik and Doppik has roots in a much older one. A historical deconstruction written by Norvald Monsen (2002), a passionate advocate for the cameral approach, walks us through five centuries of the cameralist tradition, and outlines how it withstood many attempts to be substituted by the 'commercial' (i.e. double-entry) method. He cites Ernst Walb's 1926 seminal book on the subject, who triumphantly declares: "*The introduction of commercial accounting in the total public sector was only an intermezzo. It had to fail, because one had not shown sufficient consideration for the special demands, which the state sector makes on an accounting system*." (Walb 1926, p. 215, in: Monsen 2002, p. 41) The statement that replacing cameral with commercial accounting has "always failed" is repeated four additional times in Monsen's paper.

Cameralists strongly emphasize that the state is fundamentally different from a private enterprise, and therefore has different bookkeeping needs – and cameralism was designed with these very needs in mind. But digging into these "special demands," the argument starts to ring hollow. Monsen (2002, p. 52) outlines how cameral accounting focuses on accurately monitoring the cash situation of the government, and it can diligently track the source of incoming and outgoing payments, which is indeed a strong suit of the cash-based method. He goes on to argue that in contrast to that, commercial accounting also includes non-cash

transactions (e.g. depreciation expenses) – so the tracking of cash inflows and outflows becomes more difficult and opaque. Now, this is an argument that does not hold water. A cash flow statement (excluding non-cash transactions) is one of the three required financial statements in the accrual approach (see above). The fact that accrual-based accounting provides *additional* meaningful information does not make cashflows any less transparent.

Given the polarized nature of the debate, it is somewhat surprising that actually, both accounting methods are suitable to accommodate both concepts of savings. As Monsen (2002, p. 54) shows, it is possible to prepare income statements and balance sheets in the cameral logic. In a similar vein, also in accruals-based accounting, investment can be viewed as a one-off expense, depending on the amortization profile (if the assumption is that it depreciates in the course of one year, it is an expense for that year).

The main counterpoint against accrual accounting is the uncertainty and guesswork involved in creating income statements and balance sheets (beyond cashflow statements) for public entities. In the absence of straightforward market-based prices, discretionary decisions are needed to valuate public assets and liabilities, and to determine their depreciation cycle. Financial records based on these decisions will be estimates, as opposed to more factual cash-based statements. This is a valid and important limitation. But cameralistic accounting does not provide a meaningful alternative – the alternative is having crucial estimates, including appraisals of government savings, hidden from the public eye.

Finally, Monsen (2002, p. 52) also raises a democratic accountability case. As opposed to the private sector, the public's money spent producing public goods and services does not "come back" in the form of payment on the market, it has to be raised in the form of taxes. Therefore, in the public sector, "the way the expenditures are financed are attached greater importance." It is a normative argument, and a very fair one. However, it is unclear how a detailed cashflow statement could not provide the same transparency. And more importantly: citizens do not only form claims about the input side of the state budget. How about their legitimate claims for sufficient public goods?

The sheer ferocity of cameralists' arguments, and their little charity towards the other side, is highly revealing of their strong ideological priors. The strictest focus on cash-based records is supposed to be an additional guardrail against profligacy and irresponsible spending. Chiming closely with the rules-centered ordoliberal tradition, it shows a strong distrust in discretionary decisions. It is assumed that given additional options and "leeway" to categorize their expenses, governments will act irresponsibly. A cash-focus is also a straightforward manifestation of the narrow, financialized understanding of saving. A prudent government is one with a positive cashflow.

Debt brake (and black zero) versus golden rule

A very similar logic is mirrored in the evolution of fiscal rules and targets in Germany, which shows a steady movement towards a financialized understanding of saving. The guiding

principles of German ordoliberal thought include the preeminence of a strong legal framework to govern the economy, and a preference for rules over discretionary fiscal decisions.

Before the public finance reform of 2009 which introduced the constitutional debt brake (or Schuldenbremse), Germany had a 'golden rule' type of fiscal rule in place. In its original form, a golden investment rule differentiates between a government's current expenditure and capital expenditure, i.e. between public consumption and investment. It usually places a limit on borrowing, to the extent only that it does not exeed the level of public investment. Therefore, it views investment as a form of saving. The 2009 reform sharply deviated from that view. The constitutional debt brake prescribes a strict limit on yearly structural deficits to 0.35% of GDP for the federal government (and 0% for the state governments), and investment spending is included in that calculation. The debt brake therefore shifted the focus instead on the state's net *financial* asset position. The political commitment to a 'black zero' (or balanced budget), pursued by consecutive Merkel-governments from the early 2010s onwards, swerved even further.

The famous black zero or Schwarze Null, the "memeified" political symbol of balanced budgets is not a formally institutionalized policy target – but it is just as powerful. It is a strong political anchor, and one of its aims is to distinguish policy success from failure. The Schwarze Null lends itself to the household analogy. It rests on the tenet that households cannot permanently live beyond their means, so governments cannot, either. As a frugal Swabian housewife does, the government should balance its budget. The electoral appeal of this moralizing narrative is well documented. It extends across political aisles, not only in Germany (Haffert 2016, Bremer and McDaniel 2020). But again, the concept of saving encapsulated by the Schwarze Null is limited to money only, leaving physical capital out of the equation. The anti-investment fallacy clearly shows the incoherence of the household analogy. It begs the question: is it really thrifty to keep stuffing five-euro bills into a jar, while the roof is leaking? The Swabian housewife would call a repairman.

What makes the fiscal rules debate quite strange is that political parties actually agree with the diagnosis that Germany has a large investment gap. They just deny the link between the investment gap and the way fiscal rules are set up, and cite the increase of gross public investment in nominal euro terms since the 2009 public finance reform. It is a thoroughly unconvincing argument given that (1) net public investment did not increase but took a nosedive in 2012, and remained negative (inadequate to cover amortization) for three years, (2) measured as percentage of GDP, the trend is stagnating at best (Figure 3).

The argument that there is a lack of planning capacity to invest in public projects is often used to explain slow public investment growth. However, as Haffert (2020) sharply observes, this lack of planning capacity is itself a consequence of the policies that enabled budget surpluses in the first place. A long-term austerity policy does not only limit funding for certain policy areas for a set amount of time, but fundamentally changes the way in which state resources are managed. Rather than supporting the state's 'power to act' (Handlungsfähigkeit), as some progressive proponents of balanced budgets hoped – long-term austerity dramatically undermines it.

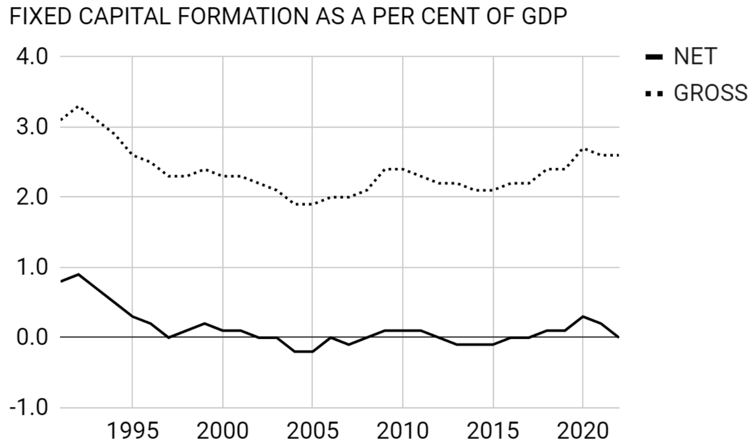

Figure 3. Fixed capital formation in Germany as a per cent of GDP (Data: Destatis)

As it is often the case in political debates, actors deny or disregard the existence of tradeoffs. An honest discussion would start from finding common ground over the public investment needs of the country – which, according to the careful estimation by Dullien and co-authors (2002), amounts to 457 billion euros in the course of 10 years. Fratzscher (2022, p. 111) estimates a similar ballpark: 500 billion. A rough back-of-the-envelope calculation suggests that that is four to five times the yearly amount that is allowed by the debt brake (that is, as of 2023, around 10 billion euros). The exact size of the gap could be smaller if growth picks up, but the magnitude remains. The hawkish side usually counters that there is no need for borrowing, if “spending priorities” are adjusted to allow for investment. This means cutting back on social entitlements and the size of the public sector in general. But they usually do not say where they would find the whopping 30 billion euros puffer in the German budget (to illustrate the scale, the entire yearly budget of German higher education was 67 billion euros in 2021).

In late 2021, a new government coalition, known as the "traffic light," was formed in Germany, consisting of the Social Democrats (SPD), Greens, and Liberals (FDP). It was already evident during coalition negotiations that a significant contradiction existed between aims to pursue climate protection and digitalization while also adhering to the debt break. Robert Habeck from the Greens was appointed to the economy and climate portfolio, and Christian Lindner from the Liberals to the financial portfolio. The parties laid out a few options to square this circle, i.e. to invest and maintain the debt brake simultaneously.

The first option involved creating off-balance sheet vehicles such as funds or companies that would exist outside of the budget, allowing them to issue debt without it being included in official debt numbers (e.g. Südekum 2021). However, these off-budget entities could only issue debt at lower rates if the state backed them in some form, practically making them part of the consolidated state budget. The second option was to look into the estimation of potential GDP. As the gap between actual and potential output is used to determine the structural deficit, a more precise estimate about the output gap could lead to more fiscal space. The third option

involved creating a "special fund" for spending that would not count towards the national debt. This idea ultimately came to fruition in the form of the 1 billion euro ‘Sondervermögen’ for defense spending, in the wake of the Ukraine war. The COVID recovery fund as well as the defense special fund demonstrated that it was possible to spend money when political will existed. But to put it bluntly, these are all accounting gimmicks to circumvent the rules, making a sustainable increase in investments unlikely.

Conclusion

Letting basic infrastructure rot and forgoing the necessary green and digital transitions neither fits with the entrenched interests of Germany industry, nor with nor with the self-image of frugal and responsible budgeting. The notion of ‘generational fairness’ is often invoked, justifying debt reduction. But again, decaying physical capital, including underinvestment in digital infrastructure or the green transition, can hardly be squared with future generations’ interests. So how come Germany ended up with such a vast public investment gap? This article has drawn attention to the fallacious understanding of saving, which carries a narrow, overly financialized meaning, detached from its economic substance. This approach disregards physical assets and equates public sector saving with net financial lending. Because of this: the decks are stacked against public investment.

The article has traced this disconnect between financialized metrics of saving and its economic substance through locating it in two interconnected policy debates in Germany. It found evidence for the disconnect in both the discourse over accounting methods, and over fiscal deficit and debt rules.

The topic’s relevance travels way beyond Germany, especially as the European Union’s own fiscal framework, the Stability and Growth Pact follows the very same approach – not independently of German ideas. As the Pact was constructed, renowned macroeconomists Olivier Blanchard and Francesco Giavazzi (2004) plainly called this approach ‘a serious error’ and ‘an obvious mistake,’ and argued that the Pact should be improved through a ‘proper accounting of public investment.’

Although a lot has been written about Germans’ ordoliberal economic preferences, these works have yet to critically reflect on the fallacies and measurement problems around the concept of saving. This paper aims to fill this gap, by pinpointing the the biases and misconceptions baked into efforts to capture and measure government savings. It adds another layer to the powerful ideas in German economic policymaking. Beyond the ordoliberal focus on rules to force up saving, there is an unspoken emphasis on *financial* assets. Starting from the deconstruction of measurements, and critically assessing the politics of economic statistics is a fruitful endeavor, as it can add important insights about the underlying economic ideas.

Even within Germany’s rules-based, moralizing political economy, closing the investment gap would be possible if physical capital was recognized for what it is: a form of saving.

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