Interview with economist and politician Philip M. A. Hoffmann, MdB (Mitglied des Bundestages), Member of the German Parliament

Market Excels Bureaucracy in Stabilizing the Economy Against Geopolitical Risks

By *Japan SPOTLIGHT*

Konrad Adenauer Stiftung Tokyo Office organized an interesting roundtable – "The Strait of Hormuz Crisis: Implications for Global Trade, Supply Chains and Sustainable Investment" – on Sept. 16 and 17 in Tokyo with distinguished trade, economy and energy experts from Europe and Asia. The theme overlaps with the cover story of the *Japan SPOTLIGHT* Nov./Dec. 2026 issue on innovation, growth and security.

***Japan SPOTLIGHT* had an opportunity to interview Philip M. A. Hoffmann, MdB (Mitglied des Bundestages), a member of German Parliament who took part in that roundtable. He was trained in banking, and before entering parliament spent more than nine years working in Luxembourg's fund industry.**

(Interviewed on Sept. 17, 2026)

Assessment of the Current Global Economy

JS: First, a very big question. How do you assess the current global economy, considering the rising geopolitical risks? There are lots of issues here, but I'd like to know your opinion about the general landscape of the world economy.



Philip M. A. Hoffmann

Hoffmann: The global economy and growth are much more resilient than we may have expected. But the geopolitical risk is very high at the moment. We have had two energy shocks in five years, first with Ukraine and now with the Strait of Hormuz. Different political interests make the situation uncertain. It also exacerbates the energy crisis. It is negative on both sides – on the production side, because it is much more expensive to produce, but also on the demand side, as households have less money available. Such inflation also has other consequences. Central bank policy to increase interest rates makes markets less efficient, and the government's borrowing costs increase, meaning the government has to pay more to service its debt. For me in Germany a 1% increase in the interest rate means, in the first year only a small amount, for example 2.5 billion euros, but in the long term it is 20 to 30 billion more, because the bonds don't all end at the same time. So it has huge consequences. Considering these aspects, the world economy is still very resilient. Also we have had considerable growth through Artificial Intelligence. But there are growing concerns, with some economists saying there could be a bubble, and others saying that it will all work out in the end and that markets will adjust over time. Even leading AI experts in the United States are increasingly raising concerns about the risks involved. There are still many open questions, and we are navigating a period of considerable uncertainty.

Despite the challenging economic environment, Germany has returned to growth after several years of stagnation. The outlook is still not where we want it to be, but after seven years, seeing the economy grow again is an important step forward. And our policies are beginning to make a difference.

JS: I am very curious about the impact of the shocks. As you said, it is unexpectedly small and I too thought there would be a much more negative impact on the global economy. But there's not so much. So does that mean that world policy practitioners are now well prepared for shocks, after their experiences of the oil shock, Covid-19, and so on?

Hoffmann: I think you cannot prepare for such shocks, because it's a bit like climate change. As a winemaker, I see that every year climate change has a new face. Some years it is very hot, or very wet, or too cold. Economic shocks are similar. They always show another face. Of course, if you are a politician and are used to dealing with one

shock, then it is much easier to deal with another one. But circumstances differ every time so you cannot say that one shock has the same answer as another does. I wouldn't even say that there's the same answer for one shock for different countries, because every country has particular challenges that require individual answers.

Growth Strategy Now

JS: What do you think is the key to encourage global economic growth? In our view, economic growth is still very important. Of course, social concerns like equality or the environment are vital. However, without economic growth, we cannot solve such social concerns.

Hoffmann: I totally agree. It's one of the main problems we are facing in Germany, because if we don't adapt our social welfare system, combined with demographics, we'll be overwhelmed. Firstly, the answer should not be demand stimulus because we are in an environment in which the supply is limited by demographics, energy prices, and other factors, and if we increase the demand, the only thing we will end up with is inflation. So we have to focus on the supply side.

There are several key factors. One is certainly productivity. AI and robotics have come at exactly the right time to help us to become more productive. That counts for Japan as well as for Germany. We are already seeing sectors where staff shortages are becoming a real constraint, with some restaurants, for example, having to close because they simply cannot find enough employees. Technology can help us bridge these gaps and make better use of our workforce. Increasing productivity also means less bureaucracy. Take a company with 10 employees. As the generation of my parents retires, that number may shrink to just seven. If four of them are then tied up with bureaucracy, only three are left to focus on the actual business. This illustrates why reducing bureaucracy is so important. We have to reduce bureaucracy to give companies the possibility to concentrate on their work.

The second key is investment. You have to make investment more attractive because in Germany and Europe, we have tons of savings, but they are not being invested. A substantial share of European savings is invested in the US rather than in Europe. Every year, more than 300 billion euros in European savings flows into foreign assets, with the US being the main destination. This illustrates this structural challenge: Europe has significant savings, but we need to create better conditions to channel more of that capital into European businesses and innovation. To make investments more attractive, we need a capital market union in Europe. This is a longstanding topic. When I left university 12 years ago, I was discussing about a capital market union. When I returned to politics after working in the financial industry, I realized we are still talking about the same subject today. Nothing has substantially changed. We need a capital market union in the EU, but it is not the only key. We see so much money going to the US, and we don't have a capital market union with the US. They have profitable projects that are financially attractive. Profits also make investment. Ultimately, investment follows returns. We need to make Europe a place where businesses can grow, generate profits and attract private capital. And we also need to make it easier for people to invest their savings in European businesses.

The third point is an open and rules-based economy. By that I mean we should diversify more and not decouple. We face issues with tariffs by the US and the growing dominance of the Chinese industry, for example in the car industry. Diversification, as we have just intensified with new trade agreements, will help to find new partners. Trade agreements, such as with Japan, Canada, Mexico, and South American countries, will help a lot to rebuild the economy. Germany, like Japan, is an exporting country.

AI as a Key Innovation

JS: AI is very important technology. The role of new industry, entrepreneurship, and innovation driven by AI could be very important in encouraging potential on the supply side.

Hoffmann: Of course. In Germany it is surprising because this year, we see a lot more startups than we have ever had and many of them are in the AI sector. I see AI as a double-sided coin. It brings many advantages but there is no free lunch, as they say; there is nothing in the world that brings only advantages. AI will also certainly bring challenges, disrupting the way we work today. For countries with demographic problems, such as a shrinking workforce and growing labor shortages, it will help, but there's always another side to the coin, and we shouldn't forget that.

Market Should Lead Investment, Not Bureaucracy

JS: You mentioned the importance of investment in comparison to savings. I agree. But there should be investment opportunities. New industries could create new opportunities for investment.

Hoffmann: There are opportunities in Europe and Germany, but too often, the conditions are more attractive elsewhere. As I said, every year, more than €300 billion euros in European savings flows into foreign assets, with the US being the main destination. That's a question of efficiency and also of the bureaucratic framework. In Germany, it takes three months to build a company. This might mean that maybe you have a good idea for a business but if it is too difficult for you to set up a company, you will never do it, you will stay in public service.

JS: So you think bureaucracy should be improved.

Hoffmann: Yes, it should be significantly reduced. We have so many rules and it's getting too complicated to set up a company. We need to simplify the process and make it easier for people to turn their ideas into successful businesses.

Coping with Depopulation

JS: The third question is population. As you know, Japan is an aging society, suffering from depopulation. I looked at the German data, where there is not depopulation, but zero growth.

Hoffmann: Germany's population started to decline again in 2025, and we are facing some of the same demographic challenges that Japan has been dealing with for much longer. Japan has been experiencing population decline since 2008, while Germany has only recently reached this point. That is one of the reasons I am here in Japan. Of course, I am here for the conference, but I also want to learn from Japan's experience in dealing with demographic change and its impact on the workforce and the role of government. Our government is far away from where Japan is today in terms of public debt, but we are also taking on significantly more debt as we finance higher levels of public investments. I want to see and learn what's happening here, because we need to make sure that higher investment does not come at the expense of long-term fiscal stability.

With an aging population, there's a simple equation – the number of hours worked and the output per hour. If one half of this equation, the number of hours, decreases as the working population shrinks, then you have to either increase the output per hour, meaning become more efficient, or stick to the same number of hours, which means less output. We need to work on both – number of hours worked and the output per hour. In Germany, we recently introduced measures to make it more financially attractive for people who have reached retirement age to continue working. It's not meant to make everybody work full-time until they're 70, but for everyone who wants to continue working we've made it more attractive regarding taxes, so that eligible employees can earn up to 2,000 euros a month tax-free. That helps us on the labor-supply side of the equation. For the right side of the equation, the productivity side, we must become more efficient, reducing bureaucracy. Take the example of 10 people at a company, with four taking care of bureaucracy, you must reduce it to two, in order to stay as efficient. And we need to make better use of AI and other technologies that can streamline processes, improve efficiency and reduce workloads.

JS: How about raising the fertility rate? Is there any current policy in Germany on this?

Hoffmann: What's the main problem regarding the fertility rate? It is to combine family life with work life. Many people of my age want both a career and children. This has to be more attractive but also financially viable. I am the father of two kids and my wife is working. So I know how important access to childcare is: Kindergarten helps a lot; my kids can go there from an early age. Of course, politics cannot dictate how many children people have. What it can do is create better conditions and make it easier for people to realize their plans to have a family. And we should also recognize that declining fertility is a global trend. The global trend is fewer children. You need 2.1 to keep the population stable. If everyone in my circle of friends had two children, that would certainly help – but that's not the reality. Ultimately, these are deeply personal decisions, and the role of politics is to make it easier for people to have the family they want.

JS: French people say that they have potential "grey growth". That is, an aging society could provide business opportunities such as health care and medical equipment. So while an aging society is not necessarily good news, because productivity declines, at the same time, there is good news, as there could be business opportunities. What are your thoughts?

Hoffmann: In 2011 I wrote a bachelor's thesis on demographic change and the consequences for the economy, politics and infrastructure. One of the results was that there are also benefits of demographic change, but the question is how it is financed. Additionally, there is also a negative side for investments as the level of risk aversion increases in an aging population. And that's not a good sign for investments in riskier assets. For example, my parents' generation is more risk-averse than I am.

JS: I know that immigration is a very sensitive issue. Unfortunately, Japan's current administration is not enthusiastic about increasing immigration. But our Foundation issued a report in collaboration with some researchers suggesting that we should increase immigration in order to cover the demerits of depopulation. Do you have any advice for Japan?

Hoffmann: It depends. In Germany we want to generate growth, so we need immigration for our economy – people coming to Germany to work and contribute to the economy. What we don't need, as we had in the past, is immigration to our social system only. Immigration to the economy is very helpful on several fronts: it covers the lack of workforce, on the left side of the equation, the number of hours worked. It brings knowledge, skills and experience from other countries, which can help businesses become more productive and innovative, which may also make the Japanese economy more efficient. I'm not familiar enough with the Japanese social security system to comment on it in detail. But in Germany, immigration can also help stabilize our pension and health insurance

systems, provided that people are in employment and paying contributions. From an economic perspective, I consider immigration necessary.

Back to the Short-Run Prospect of the Macroeconomy, Risk of Stagflation?

JS: In the short term, with rising energy prices and faced with the risk of inflation, assuming that our growth potential is limited, this means the possibility of stagflation. What are your views on this?

Hoffmann: When energy prices rise, inflation is almost a given and there is also a second round of inflation. When energy prices rise, the production costs of, for example, farming rise, and therefore food also gets much more expensive. If the market fails, some producers will quit. Then you have a supply problem, which leads to even more inflation. In my view, central banks are much smarter than they were in the past. The US Federal Reserve underlined its independence by increasing the interest rate. The ECB is also very independent. I assume that the Japanese Central Bank is also following this trend.

Back to the first question, what should we do to generate growth in the economy. Diversifying our energy supply and developing new energy sources could be important parts of the answer. That could be one key change for Japan, as for Germany, if we use the energy crisis as an opportunity to improve efficiency rather than relying primarily on state intervention. Again, reducing bureaucracy can help, as can putting everything to the test and seeing where we can save money in energy production. And we need innovation, because we will need more and more energy in the future, including because of AI. This part of the equation can help to generate growth for the future, while also helping us to contain inflationary pressures.

Rising Interest Rates & Fiscal Sustainability

JS: Interest rates will rise all over the world and fiscal sustainability will be the next question. Is the Japanese debt model sustainable or not? We have already reached a $25 billion budget deficit, almost 2.5 times as large as our GDP. An enormous debt. And we'll need to spend more on the aging society, the military, national security, and so on. Is this sustainable?

Hoffmann: I'm worried about developments like these. But I think it's not enough to only compare the debt GDP ratio because economies differ. Compare Japan's debt with the government bond crisis we had in the EU. In Greece, Spain, Portugal, etc., that level was much lower. But the underlying circumstances were very different. The debt in Japan is mainly denominated in your own currency. And there is another difference. On the active side of the balance sheet, you have plentiful assets which other countries may not have to the same extent. If you deduct all the real estate and wealth of Japan, then the debt ratio is not that high.

It is certainly true that raising interest rates is getting more and more dangerous. We were used to low, sometimes zero, interest rates, and Germany was even facing negative interest rates. But if you look back in history over the long term, we have also had very high interest rates.

Through the Strait of Hormuz only 20% of the world's energy is delivered, but the shocks affecting even such a small portion can change everything: the world, energy prices, overall costs. It's very dangerous and we have to be very careful. I am convinced that at such times it is good to invest in security and infrastructure. But in Germany, only 20% of total investments comes from the government; the vast majority is driven by private investment. We have to make it more attractive for the private sector to invest; not everything can come from the government. It's OK for governments to make these investments, but we have to be careful because a growing share of the budget is already committed to areas such as social security, defense and interest payments. These are areas where there is much less room for political choices once the money is committed. I am also on my city council, where we have a lot of debt and can no longer change as much as we would like to because the debt is too high. I don't want this for national governments. Not for Japan, Germany, or other big countries like the US, where debt-service costs are also becoming an increasingly important issue.

JS: Today, one country alone cannot achieve macro-economic stability, because of globalization. So that means at least the G7 countries' governments should work together to achieve fiscal macro-economic sustainability. If one country's debt rises too much, that is bad news not only for that country, but also for the rest of the world.

Hoffmann: This is even more true for Germany, because the interest rates of our neighbors are all connected to the interest rate of the German bond. For example, the interest rate on my mortgage is ultimately influenced by developments in government bond yields. I am happy that I fixed my rate for 10 years, but if I took this loan now, I would have to pay more than twice as much. So it is a dangerous game. There are some reasons to play this game, but we have to find a way out, we cannot continue like this forever and continue increasing debt and interest burdens indefinitely.

JS: Currency value could have implications for macro-policy. For example, Japan has been undergoing a serious yen depreciation that has increased the risk of inflation. The US has cooperated with Japan to intervene to stabilize the yen's value.

Hoffmann: That was also in the interests of the US because Japan

holds a lot of American government bonds. But I do not see only the downside, as Japan is an exporting country. I see also an advantage, because in the past when we didn't have the euro in Germany, exports were sometimes low because the Deutsche Mark was too strong. If the Japanese yen weakens, exporting becomes more attractive. As long as you export more than you import, you benefit.

Merits & Demerits of Industrial Policy

JS: How do capital markets support long-term investment under changing monetary conditions? Is industrial policy focused on certain strategic sectors useful for supporting long-term investment? The government of Prime Minister Sanae Takaichi today has set 17 important investment areas, mostly high-tech sectors including AI and IT. Is this kind of industrial policy important to stabilize the macro-economy?

Hoffmann: We had this conversation this morning in a panel. The other economists said that it was always a bad idea to let politics decide where to invest, because sometimes they invest in the wrong thing and don't get out. That's why I'm very critical. For industrial policy you can certainly support and accelerate developments in specific areas. If you want to push AI in Japan, for example, you can do so with government investment or guarantees of private investment, but you should never replace them because private investors always follow returns. Private investors are guided by expected returns and can usually react much faster than governments. If politicians take the wrong position, using not their own money, they might stick to it even if it doesn't make sense. I say this as an economist, not as a politician. That's why I think there is a role for government, and we will use these instruments as well in Germany to help startups scale up. In Germany and the EU the problem is not that we lack ideas on startups. The problem is financing when those companies start to grow. We need to take more risks. Certainly, we need help with government banks and funds and so on. But the state should never put all its eggs into one basket.

JS: So you trust the market mechanism?

Hoffmann: Yes, I strongly believe in the market mechanism. Of course, sometimes the market doesn't work, and we have to intervene. But as a general rule, markets allocate resources more efficiently and respond faster than governments can.

JS: What innovation and industrial policies can secure future competitiveness?

Hoffmann: You cannot repeat it often enough: we need more energy and a cheaper energy supply, less bureaucracy, more growth capital, as well as economic measures such as decreasing corporate taxes and improving efficiency, such as to not have 27 different investment schemes in the EU. One important area where Japan and Germany have been too slow to react in recent decades is raw materials. This doesn't necessarily mean that we have to build or create a mine, it could be a partnership with Australia or Canada in order to gain access to raw materials through trusted partners. Other countries have been doing this for 20 years. We also need to be a bit smarter in economic cooperation. We are happy to help others in the world but we also have our own interests. If our economic interests and our development cooperation are moving in completely different directions, we end up with a one-way street that does not create sustainable partnerships. Good relationships between people and between countries should be based on mutual interests and mutual benefit.

JS: Keidanren, the Japan Business Federation, recently issued a report about the recycling of metals or goods to be used for energy. This might achieve economic growth, be environmentally friendly, and also help economic security because we won't have to import so much.

Hoffmann: In my state there is a company that makes oil from used vehicle tires. You can recycle tires and produce something new. Oil is used in the car industry for fuel and also in the plastics industry. It was also fascinating when they showed me the products created from my old tires, even things like chewing gum or toothpaste. I hope there will be many more innovative ideas like this. Regarding sustainability in steel production, if you use existing steel through recycling, you need much less energy. And recycled steel can be produced using electricity in electric arc furnaces, which opens up opportunities to use renewable energy. Of course, this is not yet big or efficient enough to be the solution on its own. But if there is any chance, we should invest in it. Then we'll have a sustainable, circular economy, making us less dependent, helping to generate growth at home. So if it works, there's no better idea.

JS: Thank you so much for your time. Please enjoy your stay in Japan. JS

Written with the cooperation of Jillian Yorke, an interpreter and translator, who worked for more than a decade for the Public Relations Office at the Minister's Secretariat of the Ministry of Economy, Trade and Industry in Tokyo. The co-author of several books, she now lives in New Zealand, where she is curator of the Japan Library: Pukapuka.