



Are we on our way to state capitalism?

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It's quite grotesque indeed: while Germany is admired by other countries for its handling of the corona crisis, we are once again – in typical German style – chewing over everything real or imagined that doesn't work or didn't work even before the crisis.

Ever since the corona crisis came to dominate the political and economic landscapes, and people's personal lives as well, a steady stream of know-it-alls has been on hand to tell us all about everything that has gone wrong in the German economy and German society overall to contribute to the difficult situation we are experiencing now. Criticisms include things like scanty supplies at hospitals, lack of digital infrastructure at schools for digital homeschooling and even the amount of aid provided by the state, which the critics hold to be much too low. But another much more fundamental criticism of our economic system is also coming increasingly to the fore. Much like in the global economic and financial crisis, or with climate change, the market economy is once again being held to blame. In many cases, critics believe that simply levelling charges of "neoliberalism" is enough to make their case.

However, surveys show that even with the issues and shortages that have been occurring, some of which are probably unavoidable, the majority of the populace is very happy with how the government has been doing. Approval rates for the grand coalition and its main figures are higher than they have been at any other time in the current legislative period.

Of course, criticism like this is often motivated by specific interests. Many want to make sure they get their share of the money raining down over the country right now. Since not many questions are being asked in the process, loud complaints can bring hefty returns. But in many cases, the criticism is also cheap or simply naive, as in the case of arguments citing a risk analysis by the German federal government from back in 2012 as proof that the government knew a pandemic was coming at some point. True, a pandemic was identified as a risk, but as only one of many risks of varying likelihood, such as floods, a large-scale cyberattack or a new wave of refugees. No



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country in the world has the resources to prepare in full for all risks that are even halfway likely to materialize.

And that brings us to the real point here, the one overlooked by the disciples of the foresighted, all-powerful state: ultimately, the political sphere faces the exact same problem as the heavily criticized market economy, namely trying to satisfy a potentially unlimited number of requests and demands with limited means, and always with an eye to uncertainty. In the market economy, this allocation problem is solved through prices, which function as an indicator of scarcity. In politics, the mechanism is neither straightforward nor transparent; it is probably a murky blend of public interest, politicians' interests in maximising votes and compromises among the stakeholders in the political process. The interest in the common good is the hardest criterion to pin down. It is often shaped by a person or institution's own economic or social notions or invoked to make those ideas a reality.

Just like in the business sector, politics uses a calculus of opportunity cost. The fact that every euro can only be spent once leads people to try to maximise the benefit derived from spending, and that requires thinking about alternative uses. In spite of all the outraged claims by politicians that it is impossible to put a price tag on human life, this weighing of factors is no different when it comes to people's existences. This process of weighing up value is not generally as dramatic as in the trolley problem, a thought experiment in ethics that asks whether we are willing to accept – or even cause – the deaths of others to save a greater number of lives. But every decision about whether to close an unprofitable hospital is exactly this kind of problem. And the same is true of decisions not to build another hospital, or not to try to mitigate the situation on a stretch of road that is prone to accidents.

With the coffers full in recent years, politicians have frequently given the public the illusory sense that everyone can somehow get what they want after all, even in the face of issues such as the calls for a basic pension or for the abolition of the solidarity surcharge paid to support the states of the former East Germany, where it has become clear that this isn't possible. In fighting the corona crisis and its likely long-term economic impact too, policymakers continue to act as if they were immune to economic constraints. With the goal of making sure no healthy business will go bankrupt due to corona and no jobs will be lost, a huge protective shield has been put in place for Germany.^[1] The volume of the package (spending and guarantees) was originally EUR 1.2 bn, but additional programmes have increased it further. You don't have to be a staunch Keynesian to understand that in a situation like this, involving both supply and demand shocks, the state has to step in to support incomes and businesses. The political desire to stabilize citizens' trust with programmes and promises in a crisis like this is also understandable. But by the time politicians start showering people with benefits while waving away questions about long-term financing as detrimental to confidence, many people may start to take comfort in the illusion that there is no such thing as budgetary restrictions for the state.



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The rise in government spending, which will likely top 50% of GDP this year (compared with 45.4% in 2019), probably paints an incomplete picture of the massive increase in state influence on the economy. The misallocations of capital, misdirected employment incentives and spread of moral hazard that go along with the protective shield are essentially unavoidable, but they will weaken the German economy's productivity in the long term. And that, of course, also curtails the possibilities of fiscal consolidation, which will be forthcoming sooner or later, and will further exacerbate the conflicts about allocation of resources sparked by the ageing of society.

Even before the corona crisis hit, a majority (55%) of Germans mistrusted the capitalist system^[2] (although it should be noted that the mere use of the term "capitalism" is likely to have triggered knee-jerk rejection among some of those surveyed). Still, it is hard to understand why we Germans, of all people, have a practically romantic longing for a strong state role in the economy. After all, we're one of the few countries to have been able to watch as a parallel experiment unfolded in real life over 40 years, showing whether a planned economy or a market economy is better suited to rebuilding after a shock (and one that was of far greater magnitude).

^[1] Federal Minister for Economic Affairs and Energy Peter Altmaier at a press conference on March 13.

^[2] Edelman Trust Barometer 2020.

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