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The Policy Agenda for the Post-pandemic Period

Many companies, employees, and self-employed people in Germany are currently struggling to cope with the restrictions of the shutdown. Nevertheless, the time has come to think about what comes next. How can policymakers support an economic recovery?

The federal and state governments have already provided dizzying sums to cushion the crisis, with the federal supplementary budget alone foreseeing EUR 122.5 billion in additional spending. Given that tax revenue is expected to fall by EUR 33.5 billion, the plan is to issue EUR 156 billion of new debt. In addition, there are guarantees for emergency loans to companies amounting to EUR 357 billion.

However, these funds are primarily earmarked for acute crisis management measures – expenditure on direct pandemic control as well as interim aid for the self-employed and for companies during the period when their businesses are closed down. To bring about a new upturn after the crisis, additional stimulus will be required. But what form might it take?

Recovery in Two Phases

It is to be expected that a number of restrictions will be lifted in the coming weeks, and many people are hoping that a rapid economic recovery will follow. However, that is not very realistic. The recovery will likely occur in two phases. The first phase starts with initial steps to ease the shutdown and will last for as long as the virus continues to spread and neither a vaccination nor an effective drug to treat COVID-19 is available – i.e., at least until the end of 2020.

Considering International Supply Chains

In this phase, economic development will remain subdued. Certain restrictions are likely to remain in force, such as restrictions on travel and meetings. In addition, many value chains have shattered and it will take time for companies to arrange for supplies to resume. Many value chains cross borders; restrictions must also be lifted both abroad and for cross-border transportation. During this phase, standard economic stimulus packages designed to boost demand will have little effect because the problems are mainly on the supply side of the economy.

Policy in the first phase should therefore focus on the following measures: First, it would make sense to coordinate with Germany's immediate European neighbors (EU-wide would be even better) to ensure that relaxation measures take international supply chains into account. Otherwise, there is a danger that international concerns will fall by the wayside. Second, border controls should be designed in such a way that goods can pass – with appropriate safety and security measures in place – even if restrictions remain on the movement of people.

Providing Fiscal Liquidity Support

Third, more attention should be put on aid for the self-employed and for small and medium-sized enterprises. It would make sense to go beyond the current grants and provide additional fiscal liquidity support: it should be possible to offset losses expected in 2020 against income in 2019 in such a way that a tax refund will still be possible in summer 2020. It is important for this measure to include reporting companies, which are typically larger companies, as well as small businesses and the self-employed. This should be supplemented by grants for operating costs, which will be taken into account in future tax returns and are therefore also repayable.

From the point of view of the treasury, this would merely shift tax revenue into the future; it would not be a permanent burden. The downside is that this means the burden on companies is also reduced only temporarily. Nevertheless, this approach would still help considerably, as it would allow companies to stretch the problem over several years and because no interest would be charged. The measures are also precisely targeted. Any entrepreneurs or self-employed people with taxable income from other sources do not need this assistance and are unlikely to apply for it.

Promoting Private Investment

The second phase of the recovery will start when all restrictions have been lifted. From this point on, policy should give broader impetus to public and private investment – and should announce this well in advance. In terms of public investment, the main focus should be on expanding transportation, communication, and energy networks.

If these investments are to be implemented in the not too distant future, it is vital to press ahead now at full speed with the planning processes. Priority should be given to projects that are already in the planning stage and can start in 2021. Better conditions for private investment could be achieved by a fundamental reform of income and corporate tax and of trade tax. After COVID-19, it will also be more important than ever for energy policy to reliably meet environmental and climate protection needs while ensuring that industry is supplied with electricity at competitive prices.

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