

Executive Summary

Regulatory Framework Conditions for a Future-
Oriented Mittelstand Policy –
The Example of the Green Transition

Michael Holz, André Pahnke and Hans-Jürgen Wolter

Mittelstand policy as a reliable, framework-oriented policy approach

The concept of “Ordnungspolitik” (roughly translated as ordoliberal regulatory framework policy) is commonly regarded as a key principle of the social market economy and aims to reconcile a market-based economic system with social balance and social participation. Mittelstand policy should provide Mittelstand enterprises with planning certainty, enabling firms to focus on their core entrepreneurial activities. This does not preclude adjustments to the regulatory framework in times of large-scale disruptions. The green transition currently constitutes such a radical change.

Largely refrain from mandatory obligations, prohibitions and information obligations

The environmental policy in Germany and the EU, still largely based on mandatory obligations and prohibitions, is both inefficient and shows a low ecological effectiveness. Similar criticism applies to information obligations, such as sustainability reporting and labelling requirements. Both approaches place a particular burden on the Mittelstand, as they are associated with substantial additional bureaucracy. Due to their rigid specifications, they also prevent flexible solutions tailored to the specific circumstances of individual enterprises.

The Mittelstand disposes of specific strengths and weaknesses in implementing the green transformation

Characteristics such as high flexibility, quick decision-making processes and long-term orientation facilitate the transformation efforts of Mittelstand companies. The societal responsibility that many Mittelstand enterprises feel towards their region, their employees and their market partners counteracts cost-driven relocation decisions, which are becoming increasingly relevant for non-Mittelstand firms. At the same time, however, the typically smaller size of Mittelstand companies is associated with tighter resource constraints. Smaller Mittelstand enterprises in particular often lack the time and financial means to make investments in the green transformation in addition to their day-to-day operations and economically necessary (replacement) investments.

Large-scale emissions trading system to be pursued

Policy makers should largely rely on emissions trading when shaping the framework conditions for the green transition. Complementary measures are needed to prevent international competitive disadvantages for Mittelstand enterprises. The border adjustment mechanism preferred by the EU is excessively complex and bureaucratic and should therefore be rejected from a Mittelstand perspective. For Mittelstand companies, the free allocation of certificates would be the optimal solution, as it generates minimal additional bureaucracy and imposes on average significantly lower financial burdens on businesses than an auctioning system while achieving comparable ecological effectiveness.

Design a Mittelstand-friendly transition phase

The transition to a greenhouse gas-neutral economy should be extended over a longer period. This would allow Mittelstand firms to better align the investments required for the green transformation with other (replacement) investments. The costs of backup power plants needed to compensate for periods of low renewable power generation (“dark doldrums”) as well as the development of complex grid infrastructure should be publicly funded rather than passed on to Mittelstand companies. An “industrial electricity price” for a narrowly defined group of enterprises is associated with well-known problems, such as determining eligibility, and should therefore be rejected. Support should instead be directed towards research into the new technologies necessary for the green transition.