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What best helps Mittelstand businesses after the pandemic

by Prof. Dr Friederike Welter

For over a year now, the Corona pandemic has posed major challenges for the Mittelstand in Germany. Companies have been affected by the consequences of the pandemic in different ways: A large number of enterprises were able to continue operating almost unhindered by adhering to a hygiene concept. Some firms in particular sectors, such as the online or food trade and the information and communication technology sector, even profited from the crisis. However, the economic consequences for Mittelstand businesses were serious, especially in the sectors of culture, gastronomy, tourism and retail because firms had to close down repeatedly or for a longer period due to the pandemic.

For economic policy, the main task was to limit the extent of the economic and social damage caused by the pandemic and to mitigate its acute impact on the self-employed and enterprises during the past months. The focus of the Mittelstand policy was therefore primarily aimed at ensuring the survival of the Mittelstand economy. Accordingly, supporting programs were repeatedly adapted at short-term and new programmes were launched as needed. This policy response was basically correct – as well as the softening of regulatory principles in favour of broad-based support for the Mittelstand despite possible deadweight effects.

Now is the time to turn the attention of Mittelstand policy to the time after Covid 19 and focus more on a regulatory approach. The focus should be on strengthening competitiveness and fostering innovative capabilities of enterprises. Moreover, Mittelstand policy has to enable companies to cope with the structural change that has been accelerated in many areas by the Covid 19 pandemic.

The current support programmes should not end abruptly but should be gradually scaled back. Likewise, newly initiated necessary support measures should be degressive because increasing parts of the Mittelstand economy can reopen with the progressing immunisation of the population. Besides note that consumption in culture, tourism and the hospitality industry – in contrast to other economic sectors – cannot be recouped.

Further support of struggling companies, whose prospects were already problematic before the Covid 19 pandemic, must be questioned because economic policy runs the risk of spending large amounts of money on companies that will disappear from the market in the long run. Moreover, such support schemes would distort competition to the disadvantage of sustainable start-ups. Furthermore, some support measures might also reinforce an outdated image of Mittelstand enterprises that cannot survive independently and therefore need to be supported. This stands in sharp contrast to their economic and societal importance. Especially in the past months, the Mittelstand businesses have clearly demonstrated that they are able to reduce the uncertainty of all market participants through values such as commitment and reliability, while at the same time assuming responsibility for their workforce and their home region.

The economic stimulus and future package launched in the summer of 2020 is already partly geared towards strengthening the competitiveness and innovative capabilities of Mittelstand businesses. Measures such as the Social Guarantee 2021 or the tax regulations to extend the carry-back of tax losses (Verlustrücktrag) fundamentally support the competitiveness of the companies.

Companies' future development is severely jeopardised if innovation activity collapses in the long term. Today, the lack of knowledge-intensive skilled personnel is already an obstacle to innovative activity in the Mittelstand enterprises. During the pandemic, firm-specific investments in the further training of own skilled workers decreased. Also, innovation expenditure in Mittelstand companies declined. In addition, many owners have drawn on their equity capital to reduce the economic consequences for their companies. It is therefore equally important to create suitable framework conditions for building up equity capital and – as far as possible – to give them planning security to enable Mittelstand enterprises to invest again.

Despite all efforts of Mittelstand policy, a number of businesses and self-employed persons will probably have to give up in the near future. It is therefore

all the more important to provide a framework that enables insolvent companies and the self-employed to restart quickly. Moreover, relief of bureaucratic obligations is also beneficial for the competitiveness and innovative capabilities of Mittelstand enterprises. To this end, the Normenkontrollrat had already proposed a moratorium on burdens until the end of 2021 in 2020. Wouldn't it be time to finally use this proposal on the way out of the crisis?

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