

Standpoint

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Schumpeter in the Corona Crisis

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The Corona 19 pandemic has been affecting our everyday social and economic life for a good six months now. When the exogenous shock hit the German economy in March, the first thing we had to do was to counteract the rapid spread of this aggressive virus. This resulted in extensive restrictions in everyday life and temporary plant closures in many sectors of the economy. The national border closures also aggravated the economic situation in many Mittelstand enterprises, as they no longer had access to the European single market.

In order to be able to immediately cushion the negative economic consequences such as lack of liquidity and unbearable labour costs, the German government launched numerous support measures for the self-employed and companies. For most Mittelstand companies in Germany, it also paid off that they had significantly increased their equity ratio since the financial crisis of 2008/09 thanks to their good profit situation. Only among micro-enterprises, there was a high proportion of companies that did not have any equity - and thus could get into financial difficulties much more quickly.

However, it was also very quickly confirmed that crises are "times of trial and error" when it comes to economic survival: some of the Mittelstand companies were able to cushion the first immediate economic consequences on their own by rapidly digitising processes and business models. Other companies developed new delivery concepts or switched their production to then urgently needed goods such as disinfectants, protective masks or components for medical devices. In other words: the severe crisis revealed in many places what Joseph Schumpeter defined as actual entrepreneurial activity: Innovative entrepreneurship is characterised by creative destruction and out-of-the-box thinking. Therefore, the Covid 19 pandemic may have even triggered a surge of innovation in Germany. The extent to which this is actually the case will become apparent in the coming years.

From May onwards, in view of the omnipresent complex sectoral and international linkages of a modern economy, the exit from the lockdown placed very

high demands on policymakers: an asynchronous process had to be planned, implemented and adapted as optimally as possible under time pressure. After all, a possible failure would have been associated with considerable risks. Not least the rapid opening of the inner-European borders contributed to the fact that the internal market and the international trade in goods could lead to a revival of the Mittelstand economy throughout Europe.

With the implementation of the economic stimulus and recovery package in the summer, further steps were taken to deal with the economic consequences of the Covid 19 crisis. However, the asynchronous worldwide development of the pandemic and the repeated flare-up of regional hotspots make the revival and maintenance of business activities a continuous challenge for politics and the business community: As long as there is no proven effective vaccine against Covid-19, the situation of individual economic sectors will remain tense due to tightened restrictions on social contacts. These sectors include the event industry as well as the hotel and restaurant industry or the culture, entertainment and leisure industry. Nonetheless, liquidity bottlenecks may also occur in sectors of the economy that have been less affected by the crisis to date - especially if structurally important companies become insolvent, triggering a domino effect on other enterprises.

Similarly, there is still a risk that internationally active companies will run into economic difficulties through no fault of their own if their supply chains and sales markets collapse due to new lockdowns in other countries. Nevertheless, the occasional loud call for "national value chains" must be resolutely rejected: Re-nationalisation ultimately reduces both productivity and the ability to respond effectively to crises. Efforts to achieve greater national - and even European - isolation are therefore going in the wrong direction.

The question regarding the further configuration of Mittelstand policy in the pandemic is difficult to answer. The broad and massive support for Mittelstand enterprises, which has been provided since March in the form of liquidity assistance, short-time working allowances and income replacement benefits for entrepreneurs, is to be welcomed. After all, it has absorbed much greater economic distortions. The same applies to the relaxation of legal regulations, such as the temporary suspension of the obligation to file for insolvency. Nevertheless, systemic aspects related to the design of the overall framework conditions must not be completely overlooked when extending support measures and introducing new programmes. Ideally, as the crisis unfolds, support should be given primarily to those companies that can contribute to economic recovery during and after the pandemic. It is less advisable to provide long-term support to existing companies whose prospects on the market are doubtful due to the expected

structural change. Instead, with a view to shaping framework conditions, policy-makers could evaluate the extent to which temporary bureaucratic relief measures taken during the acute crisis phase might not be exemplary for lasting solutions. In view of the cumulative effect that new bureaucratic requirements usually cause, it would be all the more important to approach possible new regulations extremely cautiously or to avoid them altogether. This applies both at national and European level. This would provide Mittelstand enterprises with valuable long-lasting support, while at the same time optimally stimulating their contribution to crisis recovery.

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