

Never Let a Good Crisis Go to Waste!*



Photo: David Ausserhofer



Photo: Klaus Gigga

By

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Special-interest groups seize the opportunity of a crisis to bring their old proposals back into politics. The Corona pandemic provides ample evidence for the revival of old proposals: higher wages for social professions, scrapping bonuses for replacing old cars, demands for more self-sufficient economies, more state-ownership, more government access to private data and calls for long-lasting changes of the fiscal constitution of the European Union.

Never Let a Good Crisis Go to Waste! This is the headline of an article where political scientists [Jack Blumenau and Benjamin E. Lauderdale](#) describe how particular interests have used the euro crisis for a reform of European fiscal institutions. Their argument applies more generally: in severe crises, politicians can no longer stick to their previous policies. Their constituency expects them to solve the problem and wants to see action. But which action? Politicians are not trained or educated for how to address an unforeseen crisis.

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This is the time when representatives of special interests get going. They are armed with policy proposals and draft laws with which they have been working on politics for years. In a crisis, they put these proposals back on the politicians' desks. They say in a way that is effective for the public: this is the medicine against the crisis. We have always demanded this. If only politics had listened to us earlier! Now is the time!

This is also a common pattern during the Corona crisis. One hears the call for higher minimum wages and better pay in all social professions. This may be a legitimate demand and should ideally be resolved in the negotiations between employers and employees or their representatives. It does not help in the current crisis, either in terms of breaking the chains of infection or treating the sick, in terms of research into effective medicines and vaccines, or in shortening the lockdown, reducing its harm or rebuilding the economy after the crisis.

The car industry is another example where several groups come up with tremendous ideas. This industry was at the brink of crisis even before the pandemic became the dominant and ubiquitous theme. Now the car industry claims that subsidies for new cars, or a scrapping bonus for replacing old cars with newly purchased cars should be part of the fight against the economic consequences of the pandemic – as if the lockdown primarily affected the economy via a negative demand shock.

It is also the hour of anti-globalization activists. They are convinced that international interdependence is the cause of the Corona crisis and that we must return to greater self-sufficiency. It is undisputed that the virus has travelled around the world rapidly due to the high mobility of people. However, without the globalization of the economy, we would also be much poorer and would be much worse off helping those who fall ill. And even more obvious: a self-sufficient society would be quite helplessly exposed to the outbreak of an epidemic. Where should the essential goods and food come from when the domestic economy is paralyzed by the disease? In a globalized world, at least those countries that are not (yet) affected and those that have already overcome the epidemic can provide important services.

One also hears calls for nationalization and large-scale state ownership of large companies, such as Lufthansa - for transitional periods, but without a clear exit scenario. As shown by state co-ownership of Commerzbank in Germany, exit can take more than 10 years. Is nationalization with state control on business operations a contribution to solving the Corona crisis? Lufthansa was doing very well before the crisis and acquired several airlines that were partially state-owned and financially unsuccessful (Swiss Air, Austrian Airlines). Due to the lockdown, Lufthansa and its employees are facing very uncertain transition periods as their business has essentially been locked by the governmental measures. Should Lufthansa be transformed into a second Alitalia – a largely state controlled company with lacking financial success? Airlines are not like systemic banks, which may take everything down with them when things go wrong. If necessary, airlines can be restored to health by means of a creditors' settlement or a restructuring insolvency. And in the worst case, their planes, routes and above all their well-trained staff would quickly be taken over by other airlines.

Those who see neoliberal excesses everywhere are demanding more state control for many goods. Will this lead to more security of supply and better product quality at lower prices? Some weeks ago, some customer might not have been able to buy their usual penne rigate, Arborio rice or Italian canned tomatoes in the supermarket. They might have been a little disappointed and had to reschedule the menu for the evening at short notice. But there was no real food shortage despite the rush to the supermarkets, and just a few days later the retail logistics experts had refilled the shelves with products from other pasta suppliers. In the planned economy of the GDR, the shelves were often empty and remained empty. Many goods were hidden under the counter and were reserved for good acquaintances, friends and persons with influence, or were bartered on black markets. And what about quality? In a museum in Berlin, you can still marvel at the GDR jeans of the brand "Boxer". Or think of retro-look

color TVs of the brand "Chromat" or computers of the VEB Robotron that nobody wanted to buy any more after German unification. And you can adore the elegance of a "Trabant P 601" – the standard car of the GDR with 26 horsepower two-stroke engine. Technical progress has largely bounced off the Trabant model, so it was built virtually unchanged from 1965 to 1990. Still you had to wait about 10 years for delivery if you ordered one of these fancy subcompact cars.

Also the proponents of a powerful and well-informed state now see their chance once again. For a long time, they were on the defensive because of concerns about data protection and the historically disastrous experiences in Europe with state surveillance. Now, the citizens' concern for their health is giving them a boost. With reference to the interruption of chains of infection and the supposedly great successes in China, extensive mobility data of all citizens are to be collected and stored. In the early stages of the debate about a tracing app in Germany, the strictly decentralized storage of the data was stressed; gradually, however, there were more and more voices emphasizing the advantages of centralized storage and government access to the data. The German County Council even demanded the contacts from infected persons' mobile phones to be delivered to the local authorities. Almost paradise for all those representatives of the police, judiciary and intelligence services, who have always wanted to have more control over potentially unruly citizens. In the past, the argument was that more surveillance was needed to protect citizens from (jihadist) terror. However, the fear of terror was obviously not strong enough. So the great fear of the pandemic is right on cue.

The renewed discussion about euro bonds is also taking advantage of the Covid "opportunity". In the face of the crisis, France, Italy and Spain are once again calling for the mutualization of European borrowing and the mutualization of the default risks for governmental borrowing in the European Union. They pander to solidarity in the ongoing crisis. According to most proposals, the new regime would apply not only for the crisis now but be a permanent structural change in the fiscal framework within the European Union. The core argument for euro bonds in the European debt crisis ten years ago has been an insurance argument: mutualization of credit risks can cushion asymmetric shocks. Countries that are unlucky and hit by a negative shock, e.g. because a country's most important industry is plunged into a global crisis, will be supported and, as it were, insured by the other countries that are not affected. Whether this argument holds, need not be decided here. However, the Corona crisis is a largely symmetric shock: the disease is a pandemic, and the universal lockdown causes quite similar challenges to public finances and the economies in all EU countries and beyond.

We do not plea for national egotism here. Countries that are not (yet) - or no longer - affected by the epidemic should make part of their emergency infrastructure available to citizens of the EU's neighbors or even neighbors outside the EU. Temporary intergovernmental credit assistance can also be useful and desirable, for example within the framework of the European Stability Mechanism (ESM). The EU could also play a stronger role in coordinating national policies. Unilateral border closures, which hardly change anything about the epidemic but threaten the populations' supply and earning opportunities, show how useful Europe-wide coordination would be. But these needs do not provide convincing reasons to transform the European public sector financial architecture for the decades after the crisis.

So, is there something to be learned about how to prepare for pandemics, natural or other rare disasters in the future? Do we really need more state control where shortages are occurring in the Corona crisis? The next disaster will probably present completely different challenges. Nobel Prize winner Thomas Schelling once argued that the primary precaution to major crisis is adaptability: economies should strengthen their ability to respond to crises by taking adaptive measures. This could be done through a larger stock of scientific knowledge, technical knowhow, a well-educated and skilled population, and through greater economic prosperity of the national economies, so that sufficient resources are available and can effectively be used and channeled into overcoming an emerging crisis.

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