GERMANY IN THE COVID-19 CRISIS: POSTER CHILD OR JUST LUCKY?

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The SARS-CoV-2 virus has been hitting Germany as unexpectedly as other European countries. At the end of January 2020, some employees at Webasto, a supplier of automotive parts in Bavaria, were diagnosed with the novel coronavirus after they had been in direct contact with a Chinese visitor. But, for a few weeks, Germans thought that COVID-19 is an issue for Asian states and not for Germany. Today, Germany continues to be severely affected, but the situation is not nearly as dire as in Britain, Italy or Spain. Germany, with its enormous financial resources and a well-equipped medical sector, appears to be better placed than most other economies to weather the storm. In May 2020, a race to lift restrictions has started and by early June, the country may be back on track.

Merkel back in power

One of the most striking effects of the crisis was that Chancellor Merkel experienced an initial revival of support. The debate about her succession, and discussion on the next chairman of the Christian Democratic Party, temporarily became irrelevant. A poll published on 10 April put her in front of all other politicians, scoring 74% support. Some observers were already proposing a fifth term of Merkel as German Chancellor (NTV 2020).

But that popularity did not even last a month. In early May, Merkel's influence on the crisis management waned in record time. She had to watch haplessly as the leaders of Germany's 16 states no longer followed her crisis management. She abandoned her usually cautious rhetoric and accused supporters of reducing restrictions of engaging in irresponsible

Dieter, H. (2020)
'Germany in the COVID-19 Crisis: Poster Child or Just Lucky?'
Journal of Australian Political Economy
No. 85, pp. 101-7.

discussions. All to no avail because, by May, Germany was returning a normal life, with just a few restrictions: no soccer matches with spectators, no Octoberfest, but quite a few other activities being permitted.

Ironically, the current crisis has been falsifying Merkel's previous claim that the German border cannot be closed. On 7 October 2015, she had argued in a television interview that 'borders cannot be closed' (Meiritz 2015). Since 16 March 2020, the German government has implemented policies previously considered either impossible or inappropriate. The challenge today is to re-open the borders both for travel within the European Union and for travel with the rest of the world. German policy makers, who have characterised COVID-19 as an existential threat, are increasingly attacked for their timidity and lack of courage.

For a while, the German authorities were desperately trying to regain control over the coronavirus. They implemented blunt measures, which were a reflection of previous complacency. If the German government would have acted earlier, say in mid-February, the restrictions could most probably have been less severe. On 7 May, one in 493 citizens in Germany has been infected with the coronavirus. Although Germany recorded fewer victims than Italy or Britain, compared to Asian countries like Hong Kong or Taiwan the situation looks not that favourable. About 7,500 COVID-19 deaths had occurred by 10 May 2020. The number has been higher than in some East Asian countries, but far lower than during the last severe flu season, when 25,000 people died. Of course, there had been no school and border closures then, and business continued as usual.

Consequently, one may ask whether COVID-19 has been a tempest in a teacup? Probably not, but the medicine has certainly had severe side-effects which will haunt the affected societies for years to come. A commentator in the *Wall Street Journal* has remarked that the lockdowns have been the black swan, not the virus itself (Jenkins 2020).

The ex-post approach in Germany

Germans were very reluctant to embrace precautionary measures. Even after the world had seen the outbreaks in China, other Asian countries and Italy, quite a few Germans thought that the coronavirus may not severely affect their own lives. The German government was equally reluctant to implement comprehensive measures to stop the spreading of the virus. Instead, the German Federal as well as the state governments employ what may be labelled as an *ex-post* approach. They waited until the crisis hit, only to apply harsh measures after the infections rates rose dramatically.

To be fair, that may have been the only avenue available in a democracy in general and in Germany in particular. Policies that severely curtail the freedom of individuals are always contested, but without evidence it is extremely complicated to convince citizens that they should alter their behaviour. In Germany, the use of emergency acts is currently accepted by a large majority of citizens, but perhaps would not have been tolerated at the end of February. As we know from other policy domains, democracies are not very good at implementing precautionary policies.

At the same time, policy makers in Germany continued to emphasize that the country is well-prepared for a health emergency. In comparison, this is true for two areas in particular: hospital beds and laboratory capacity. The number of hospital beds available is indeed remarkable. The country boats 500,000 regular hospital beds, about five times the British number of 100,000. Germany currently has 28.000 intensive care beds, out of which 25,000 are equipped with ventilators. On May 7, 38 percent of those intensive care beds were empty (Corona-Krise 2020). France, for example, has only 5,065 intensive care beds with ventilators and another 7,364 without those machines. Even when taking the larger German population into account, the contrast is remarkable.

In Berlin, a new clinic for COVID-19 patients was built in a month. Berlin's health senator Dilek Kalayci said in early May that the ad hoc hospital called ‘Corona Treatment Center Jafféstraße’ in exhibition hall 26 has over 500 beds. Approximately 100 of the beds are also equipped with ventilators. The clinic is unused, but shall provide an emergency facility in case the situation were to deteriorate. Berliners were utterly surprised that their local government was able to complete a construction project in such a short period of time.

In the rest of Germany, the situation continues to be unproblematic, primarily because there are more hospital beds than in most other European countries according to World Bank data. The figure for Germany is 8.3 beds per 1,000 inhabitants. In France, the number is 6.5 beds, in the euro area 6.2, in Italy 3.4, in the United Kingdom 2.8 and even in the United States, which has one of the most expensive health care sectors, there are only 2.9 beds available per 1,000 inhabitants. Affluent Switzerland, which is badly hit by the crisis, displays a relatively low level of hospital beds (4.7 per 1,000). A remarkable outlier is Japan, which provides 13.4 hospital beds per 1,000 inhabitants, i.e. almost five times the British level.

Therefore, the approach of the German government at both the Federal and the level of the Bundesländer can partly explained by the existing medical resources. Nevertheless, it is surprising that whilst Germany has many hospitals, those hospitals continue to be exposed to a lack of the simplest medical equipment. Face masks in hospitals have been scarce for a while. Germans were not wearing masks for a long time: even though masks may turn out to be the cheapest and the most effective remedy against the virus, they were shunned. From the end of April 2020, however, one has to wear a mask in Germany when using public transport and when shopping.

The measures of the Federal Government

Like most other European governments, Germany has implemented unprecedented measures to stimulate the economy and to keep businesses afloat. What sets the country apart is its fiscal muscle. After years of economic boom, high levels of taxation and restricted government expenditure, Germany can use its vast financial resources to avoid a collapse of its economy. In 2019, gross public debt was reduced to 59.2 percent of gross domestic product. Some commentators have suggested that 'saving has paid off' (Feld 2020).

Some very optimistic observers in Germany do not expect a severe effect on the German economy. The Council of Economic Advisors to the German government has suggested that Germany may suffer quite limited economic damage from the crisis. In a best-case scenario, it expects a drop of German GDP by five percent in 2020, which would be less severe than the contraction of the economy in 2009; and, even if Germany would be in lockdown for a seven-week period, the reduction of GDP would be six percent (Vetter 2020).

What will definitely change is Germany's fiscal position. But at the start of the current crisis, the country's coffers werwell filled: Federal, state and social security funds had liquid reserves of 200 billion euros (Gammelin 2020). In times of crisis, this comes in handy, helping to finance a far-reaching package of measures to mitigate the consequences of the spread of the coronavirus. The Federal Cabinet initiated emergency aid for micro-enterprises and solo self-employed persons. Clinics and practices will be strengthened, and access to short-time work benefits simplified. And the

Federal Government is helping large companies with an economic stabilization fund that fund has three elements:

- a framework guarantee of 400 billion euros to help companies refinance themselves on the capital market (bridging liquidity bottlenecks)
- a credit authorization for 100 billion euros to strengthen the capital of companies (recapitalisation)
- a further 100 billion euros credit authorization to refinance the special programmes of the state-owned 'Kreditanstalt fuer Wiederaufbau' (Wirtschaftsstabilisierungsfonds 2020).

Whilst Germany may be able to offset some of the initial economic damage, it will inevitably be confronted with a different business environment in the years to come. The revision of Germany's position in the global economy may be more difficult to design than the current bolstering of domestic demand.

A challenge for European and German solidarity

In 2020, Europe is experiencing a challenge of historic dimensions. There is some solidarity between member states but, by and large, each country fights the crisis with its own tools and its own approaches. It is unrealistic to envisage that Europe will emerge strengthened from the COVID-19 crisis. The nation state has been the primary source of protection and help, and European citizens will remember that supranationalism, let alone multilateralism, did not provide convincing answers in the crisis.

Of course, there have been nasty episodes during the crisis, and it would be easy to finger point to the mistakes. In an existential crisis, it may be at least temporarily unavoidable to permit policy makers to act in the national interest. Germany is no exception. The much-criticized ban of exports of medical equipment was implemented after the German government realized that the country did not have sufficient basic equipment (sanitizer, masks) for its own medical personnel.

There have been limits to internal German solidarity, too. To the surprise of many German citizens, they were subjected to rather harsh policies in some German states. Schleswig-Holstein, an agrarian economy in the North of Germany, swiftly expelled all non-residents. The measure also affected people who had second homes in the countryside: German citizens from Berlin and Hamburg were asked to leave their rather safe rural retreats and were sent back to their city apartments. The authorities legitimized their policies by reference to the limited hospital capacity, which they did not want to use for non-residents, some of whom very much resented the expulsion (Kuhn 2020).

Inevitably, the current crisis is resulting in demands from Italy, Spain and France to introduce bonds with joint liability, so-called eurobonds. That call continues to find limited support in many Northern European societies, including Austria, Germany and the Netherlands. Joint liability would require the development of a joint fiscal policy with centralized implementation and supervision. European societies are most probably too diverse for such an approach. In addition, joint liability may create moral hazard. The incentive for sustainable fiscal policy is reduced. Over time, this would weaken rather than strengthen the European Union.

Germany is nevertheless contributing significantly to the stabilization of the European economies. The solid fiscal position of the country, which is the result of policies that were heavily criticized in the past, today enables Europe's largest economy to act as a big provider of demand. Put differently: if Germany would not be able to stabilize the purchasing power of its citizens and the capacity of its companies to survive the crisis, Europe's prospects after the crisis would be much bleaker.

Surprisingly, the crisis may have some positive effects on the perception of existing economic and political structures by German citizens. In the current crisis, the German government is mobilizing resources for its own citizens, which for years have been funding the state and the social security system with both high taxes and high social security contributions. Today, German citizens see the benefit of previous frugality more positively than before the crisis. Whilst the COVID-19 crisis will take its toll, the long-term effects may not as bleak for Germany as many commentators currently expect.

The pressure to lift restrictions is mounting

Policy-makers in Germany and elsewhere must swiftly find a balance between protecting their societies as well protecting the economy. To place the safeguard of citizens' health above all other considerations is a risky strategy. Without a return to economic activity in the foreseeable future, Germany and other European countries may rapidly be exposed to an increase of severe socio-economic problems that are currently not yet on the horizon. Germany has fared well in the crisis and will have the fiscal capacity to iron out the biggest problems in 2020. It has not been a poster child, but the above average performance of the country hasn't been sheer luck either. If the reduction of production and consumption won't last long, the crisis will have been an event with limited structural effects. However, at the time of writing the long-term effects for European integration continue to be hard to estimate. The crisis may contribute to a further erosion of the support for supranational integration and might be another short-in-the-arm for the renaissance of the European nation state.

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