

Taxpayers bailing out capitalists

[June 10, 2020 | In Germany and beyond, public policy in response to the Corona crisis operates with an unspoken basic assumption: the claims of capital are sacred. This is unfair and economically unreasonable.](#)

German economists largely agreed on how not to deal with the corona crisis. Sending a cheque to all taxpayers, as the US government did, is considered an unsuitable anti-crisis measure. After all, the 1200 dollars were too little for 30 million who lost their jobs within a few weeks, and unnecessary for the others who were supposed to stay at home anyway and not go shopping.

Instead, the German government decided to lower the value added tax for half a year, starting in July. Few of the arguments against Trumps consumption checks would not apply to this measure.

The statement of the head of the Austrian National Bank, and thus member of the Governing Council of the European Central Bank (ECB), Robert Holzmann, that the crisis is an opportunity for "creative destruction", as advocated by the radical "Austrian School" of Economics, was also widely rejected. For this is would badly hurt many employees, who, contrary to the unworldly assumptions of economics textbooks, will not find a new job so easily. And it is also hurting the owners of capital. Production facilities would be permanently devalued and many loans would have to be written off due to bankruptcies.

Leo Kaas, Professor of Macroeconomics at the University of Frankfurt, counters: "Even before the corona crisis, the discussion about zombie companies was misleading; to talk about them now and to cite the purifying effects of recession is completely off the mark". Even the European Central Bank felt compelled to make a public clarification that its council member was speaking only for himself.

"Such unusual measures are right and urgently necessary in the current situation", Kaas defends the government's efforts to save as many companies and jobs as possible in his article "[Das Kapital in der Corona-Krise](#)" "(Capital in the Corona Crisis), published in the online magazine *Makronom*.

Adjustments of the capital stock through liquidation or shrinkage of companies need be avoided, he argues. In order to adjust the capital stock to the collapsed sales and production opportunities, part of the buildings and facilities would have to be sold, leased or the entire company liquidated. In normal times, these would be quite normal and desirable transactions. At present, however, things are quite different.

In the current circumstances, a market is missing on which, for instance, the facilities of hotels, restaurants or fitness centres could be sold at reasonable prices or for which commercial premises in the shopping zone could be rented. What is more, the problem is a temporary one, so that relocating production facilities permanently is not appropriate anyway.

Left-wing economists as accidental "Austrians"

Nevertheless, some economists make suggestions that could also come from widely criticized Holzmann. This even applies to Peter Bofinger, the former member of the Council of Economic Advisors (Sachverständigenrat), who is close to the trade unions.

Like many other economists, he criticized the fact that aid to companies by German government focuses too much on liquidity, i.e. loans. This increases the debt ratio and thus the risk of insolvency. Instead, he proposed a retroactive reduction of income and corporation tax for 2019 by 20 percent, solely for income from self-employment and trade. The tax offices should reimburse this from the tax prepayments, the companies would

then have immediate cash and no additional debt.

There are many such proposals for tax cuts as corona aid, some of which have been included in the recent stimulus package of the government. Most of them, however, come from the camp of economic liberals and corporations. With little surprise.

These subsidies mainly end up with those self-employed and businesses that had the highest profits before the crisis, while those with low profits or even losses would go away empty or almost empty. These are precisely the businesses that Holzmann would like to see fall victim to "creative destruction".

"Artificial coma" for the economy

The former senior partner of the management consultancy BCG, Daniel Stelter, suggested, in a term possibly not quite accurate, but striking, to put the economy into an "artificial coma".

His proposal is to pay all companies and self-employed persons during the months of closures and initial restrictions (lockdown) an amount equal to the average monthly turnover of the last year, with no duty to apply for or assessment of need.

Once normality restored, recipients would first have to repay any excess over the previous year's average revenue and tax the remaining emergency aid as normal revenue.

Capital as the main beneficiary

Leo Kaas pointed out the major shortcoming of the proposal, which also applies to the government's aid programmes. "The government's liquidity programs benefit the owners of capital, since they enable companies to remain solvent."

Potentially, without the rescue programmes, capital owners would be willing to make voluntary concessions to save their borrowers or tenants from bankruptcy, and themselves from even greater losses. However, Kaas believes that it is not the task of the state to generally protect the assets of capital owners against the consequences of such crises.

Therefore, he proposed that for the period of lockdown all companies with a sharp drop in sales should be given the right to suspend their rental and leasing payments for the same period in proportion to the drop in sales. He does not explicitly mention interest payments on loans. But when asked, he adds that the proposal could be extended in principle, at least to defer interest and redemption payments.

"Should individual banks get into trouble, you could still help them, after all, we have known how to do that since 2008 at the latest." According to Kaas, the state should help those capital owners for whom the lack of payment would be a particular hardship, just like unemployment benefits.

If the owners of the capital were to share in the costs of closing down the capital which they provided or financed, the debt of both State and companies would have to increase less, Kaas argues. Accordingly, the economy could recover more easily after the crisis, as only companies that do not have to try to reduce debt can invest.

Kaas' proposal highlights an unspoken and unquestioned basic assumption of the rescue policy: payments to capital owners are sacred. It would only be right and proper - and much more favourable for economic revival - if the costs of the crisis were to be borne not only by companies and workers, but also to a considerable extent by

Money and more

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beneficiaries of capital income, whose claims on the production result must be served from current production.

After all, the core of the problem for people as well as companies in the crisis is that, though their income is reduced or lost, they still have to make full payments to the capital owners, in the form of rent, leases and interest.

The majority of capital income recipients are wealthy enough to cope with shortfalls for a certain period of time without assistance. The state could easily help the ones that don't. And anyway, banks are being helped by the European Central Bank.

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