IfM-Background Paper

Exit from the shutdown – how the "Mittelstand" businesses can optimally survive the coronavirus pandemic crisis

Friederike Welter, Hans-Jürgen Wolter and Michael Holz

Status: April 7, 2020

Institut für Mittelstandsforschung

IfM BONN

www.ifm-bonn.org

This English version has been machine-translated and the contents have been checked and adapted slightly by the authors

Impressum

Publisher
Institut für Mittelstandsforschung Bonn
Maximilianstr. 20, 53111 Bonn
Phone +49/(0)228 / 72997 - 0
Fax +49/(0)228 / 72997 - 34

Authors
Prof. Dr. Friederike Welter, Hans-Jürgen Wolter, Michael Holz
With contributions by Dr. Rosemarie Kay, Dr. Stefan Schneck

Bonn, April 7, 2020

Das IfM Bonn ist eine Stiftung des privaten Rechts.

Gefördert durch:

Bundesministerium für Wirtschaft und Energie

aufgrund eines Beschlusses des Deutschen Bundestages

Ministerium für Wirtschaft, Innovation, Digitalisierung und Energie des Landes Nordrhein-Westfalen

Table of contents

The most important facts in brief

Mittelstand businesses in Germany are not only of great economic importance, but within the framework of the social market economy, they also fulfil an important - in international comparison by no means self-evident - stabilising function for social cohesion, not least in rural regions. This includes a long-term perspective and a high sense of responsibility towards employees and other stakeholders. This special feature made a significant contribution to the recovery of the German economy during and after the global financial and economic crisis in 2008/09.

In this paper, the IfM Bonn presents proposals on how the revitalisation of the economy can be designed in a way that is favourable to Mittelstand businesses. In doing so, we limit ourselves to the economic and social aspects. Health policy measures are not the subject of the present discussions.

Targeted preparation for exit and resuscitation

The exit from the shutdown is much more difficult than the shutdown itself. A very complex structure within an asynchronous global event under time pressure must be planned, implemented and, if necessary, adapted as optimally as possible. The risks of a failed shutdown would be enormous. Important prerequisites are transparent, early and reliable communication on the part of economic policymakers and, if possible, coordinated action between the federal government and the Länder.

First, the required health protection for companies must be regulated as uniformly and clearly as possible. It is also important to support Mittelstand businesses in procuring the necessary protective devices and equipment for their staff. At the same time, parts of the public infrastructure (e.g. public authorities, schools, kindergartens and day-care centres) must be opened beyond the current emergency operation to make it easier for employees to resume work.

The ramp-up of economic activities must not be prioritised solely on the basis of the economic contribution of the various economic sectors. It must also take into account the lead times of the various economic sectors. Under certain circumstances, a differentiated approach (with regard to time, economic sectors, regions, company sizes) may be necessary. However, this differentiation should be overcome as soon as possible. In addition, the very complex international linkages of value and supply chains must be taken into account in order to avoid additional subsequent damage.

Business and politics should also establish functional structures for mutual information and coordination in order to be able to react flexibly to changes and unknown challenges at any time.

Continually reviewing Mittelstand-related policy measures even after the acute crisis

The support measures adopted so far are generally well suited to cushioning the initial effects of the crisis on corporate liquidity and jobs. The simplified granting of aid is also important. After a (gradual) exit from the shutdown, these support measures should not suddenly cease, but should be phased out gradually depending on the situation. Regional differences and possibly particularly affected target groups should also be taken into account.

In addition to these concrete support measures in the current crisis phase, the existing framework conditions should also be reviewed for short-, medium- and long-term effects in order to achieve a lasting revitalisation of the Mittelstand sector. Thereby, those areas that the Mittelstand strategy of the Federal Ministry for Economic Affairs and Energy (BMWi) had already addressed in autumn 2019, such as bureaucratic regulations, should also be taken into account.

1 Preface

In this paper, the IfM Bonn sets out the conditions and principles of a successive exit from the shutdown from the perspective of Mittelstand businesses. It also examines whether and to what extent the existing package of measures for the Mittelstand needs to be further supplemented in the medium and long term. We would like to point out that health policy aspects of the re-entry into a regulated economic and social life are not taken into account, as we have no expertise in this area. Nevertheless, we assume that the measures and criteria proposed here must be accompanied by health policy. Moreover, they will have to be preceded by specific health policy decisions.

The paper outlines initial answers to the following questions: What is the economic and social significance of the Mittelstand in its width and heterogeneity, what role do they play in crisis management? How can Mittelstand businesses be strengthened again quickly after the crisis? Which conditions and principles have to be observed when exiting the shutdown with regard to the Mittelstand? Is there a medium and long-term need for further (sectoral, regional, target group-specific) economic policy support? Which regulations and legal provisions may have to be (temporarily) adapted?

The IfM Bonn would like to thank its Research Council and its international Research Fellow Network for the expert discussions and input at short notice.

2 The economic and social significance of Mittelstand businesses

Small and medium-sized enterprises (SMEs) continue to be an important pillar of the German economy. With a share of more than 99 per cent, they are the dominant corporate segment in Germany. In 2017, they generated 35 per cent of all revenues generated in Germany and provided jobs for 58 per cent of all employees subject to social insurance contributions. It is they, and not the large companies, that in their entirety create additional jobs (see May-Strobl/Haunschild 2013). In the crisis of 2008/09, they made a considerable contribution to stabilising the labour market. SMEs are even more important for the vocational training market than they are for the labour market. They provide a job for four out of every five apprentices. The importance of Mittelstand businesses is not limited to their role as employers and trainers alone. Due to their adaptability and innovative strength, SMEs and especially young companies (start-ups, takeovers) provide important impulses for a permanent renewal and modernisation of the economy. For example, almost every fifth new job is created in a start-up. Furthermore, new enterprises generate about half of all turnover generated by micro-enterprises. Above all, however, start-ups stimulate the demand for (intermediate) goods, since they spend the bulk of their turnover on intermediate inputs in the first few years: In the start-up period, 85 cents of every euro turned over in new enterprises go to upstream enterprises, and in the medium term the figure is still 66 cents (see Schneck/May-Strobl 2013).

Beyond their contribution to the national economy, Mittelstand businesses make an essential societal contribution to the welfare of our citizens as well as to the success and acceptance of our free and socially balanced economic and societal order. Large parts of the Mittelstand realize this, for example, through

- Favourable working conditions and appreciation for the employees
- Long-term jobs with planning and income security
- Investment in vocational training and further training of employees
- Integration of socially or health disadvantaged groups
- Support and co-involvement in shaping regional development
- Contribution to the maintenance of equal living conditions in the regions
- Working in partnership with other actors from politics, business and society (e.g. to solve major societal challenges)

The contribution to success made by Mittelstand businesses is largely based on their specific values and goals (see Pahnke et al. 2019). These include, in particular, reliability, trust, cooperation, voluntary commitment in the local community as well as responsibility and solidarity towards employees and other stakeholders. Mittelstand businesses that feel committed to this mutual culture of responsibility generally do not pursue their interests unilaterally to the detriment of third parties, as large companies occasionally do, for example, by suspending rent payments or dictating extended payment terms or unilateral cost reduction in value chains. In economic crises, such as during the financial crisis of 2008/09, Mittelstand businesses - even at the risk of economic disadvantages - hold on to their employees for as long as possible (and longer than non-Mittelstand companies) (cf. Wolter/May-Strobl 2013): This is done both out of a sense of social responsibility and out of a desire to retain the skilled workers who are crucial to competitiveness. In the context of the social market economy, the Mittelstand therefore fulfils an important stabilising function - by no means a matter of course by international standards - and thus at the same time strengthens social cohesion, especially in times of crisis.

However, the longer the current crisis lasts and the higher the respective loss of sales, the greater the pressure on Mittelstand businesses themselves. They may then only be able to fulfil the stabilisation function to a limited extent or not at all. In the last financial crisis, banks causing the crisis were "rescued" with extensive state aid and taxpayers' money because of their "systemic relevance". The global corona crisis is hitting the Mittelstand, which is held in high esteem by the population and acts responsibly, through no fault of their own. In the public perception, economic policy will also be measured by the comprehensibility and "fairness" of the measures it takes and communicates. Otherwise, populists may be tempted to become the advocates of supposedly unfairly treated groups. It is therefore vital, also for democratic reasons and social considerations, to maintain a strong Mittelstand.

3 Requirements for the gradual exit from the shutdown

Already the shutdown of the economy as a result of the Corona pandemic proved to be problematic. The IfM Bonn assumes that the exit from the shutdown can only take place successively. In view of the omnipresent complex sectoral and international linkages of a modern economy, the exit from the shutdown would place even greater demands on policymakers: An asynchronous global process must be planned, implemented and adapted as optimally as possible under time pressure. A possible failure would entail considerable risks.

First of all, **preventive health care** has priority. This refers on the one hand to the production and provision of appropriate protective devices and equipment, and on the other hand to the regulations for the implementation of occupational health and safety in companies, especially in those economic sectors in which it has so far been possible to produce without such precautions. The successful exit from shutdown depends largely on the extent to which it is possible to produce protective articles in appropriate quantities. Since the virus occurs worldwide and the existing production capacities are not geared to such a large demand, bottlenecks already arise in the supply of protective devices. Likewise, the exit from shutdown depends on how uniformly and clearly the protective regulations are formulated, which must be implemented in the companies. Ideally, the rules for health protection should be formulated so precisely and clearly that official orders can be dispensed with as far as possible and the responsibility for resuming operations can be placed in the hands of the respective company.

In parallel with the provision of protective equipment, large parts of the **public infrastructure** must be reopened, at least the schools, and if possible, also the kindergartens and nursery schools in order to minimise downtime by child-caring parents. It is likely to be more difficult for employees and the self-employed with care responsibilities, as daycare facilities deal with risk groups and can therefore only be reopened very late. Here, any loss of employment in Mittelstand businesses must be taken into account and, if necessary, flanked by measures for both employees and companies.

The next question is **which sectors of the economy** should **first resume operations.** Under certain circumstances, the fastest way to stimulate the economy would be to remove Mittelstand sectors with high economic importance primarily from the shutdown. Abele-Brehm et al. (2020, p. 16) recommend opening up economic sectors as a matter of priority according to their contribution to economic value creation. In particular, these would then be parts of the manufacturing industry.

The IfM Bonn, however, considers such a selection criterion to be too narrow an approach with regard to the Mittelstand: It would implicitly decide which companies and economic sectors would be allowed to survive on their own earlier and which only later. Drastically formulated: Which economic sector is considered valuable and which is not? Such an approach may jeopardise social peace and societal cohesion, and probably not only in the short term (see also German Ethics Council, 2020). However, it also contradicts the solidarity-based and societal value orientation of the Mittelstand. At the very least, it would have to be taken into account that the Mittelstand also contributes to vocational training and innovation. It should also be borne in mind that local crafts, for example, cover the needs of daily life. This aspect is neglected when deciding purely in terms of contribution to value creation. The same applies to young enterprises whose above-average level of intermediate input has considerable knock-on effects on turnover and employment in other sectors of the economy. Similarly, the societal role of Mittelstand businesses, which is likely to be of great importance, particularly in the post-crisis period, must not be neglected when deciding on possible prioritisation of economic sectors.

This does not preclude the fact that, for health policy reasons, the ramp-up of the economy could initially differentiate, opening some sectors, regions or larger size businesses earlier than others. However, one should be aware of the problems described above and overcome such a differentiation as quickly as possible.

For the gradual exit from the shutdown and the medium-term recovery of the entire Mittelstand sector, further important points/conditions must be taken into account:

- **Lead time**: Each economic sector requires different lead times. Even if many companies prepare themselves as a precaution, this cannot always be achieved within a few days. In the retail sector, for example, a ramp-up takes one to two weeks - less so in those companies that already have seasonal goods in stock. Gastronomy, on the other hand, needs one to two months, tourism and also the culture/events sector even longer. Besides, internationally active companies may not be able to start production easily even when production is released, because their sales markets may not yet be served again or important suppliers may not be able to deliver.
- **Equal treatment of small and large enterprises**: During the gradual restart of the economy, policymakers should ensure that certain enterprise sizes are not disadvantaged. The shutdown exemptions have resulted in such discrimination - just one example is the opening permit for large DIY stores and horticultural centres, but the (initially) ordered closure of the florist trade.

- **Regional perspective**: It may be easier to restart the economy if, initially or at least simultaneously with the criterion of value-added contribution, those economic sectors are opened up which are geared to the needs of daily life.
- **International involvement**: Any attempts to increase national isolation must be resisted. The European internal market and international trade in goods are essential factors for success in reviving the economy. In the medium term, globally active Mittelstand businesses, in particular, are likely to play an important role in counteracting the current occasional call for "national value chains". Re-nationalisation reduces productivity and thus, in the long term, the ability to respond effectively to crises.
- **Societal perspective:** Even if this is initially aimed at overcoming the pandemic and the current solidarity is great, the German Ethics Council rightly points out the possible societal problems that can accompany a longer-term shutdown – up to and including a loss of confidence in public institutions and demoralization. This, in turn, indirectly affects also the Mittelstand economy - whether it is because entrepreneurs lose confidence in the state's ability to solve problems or because their employees are demoralised.
- **Easing regulatory barriers**: In the wake of the pandemic, numerous bureaucratic simplifications were granted. It is necessary to examine to what extent this approach can serve as an example of permanent solutions. This could unleash the strength of the Mittelstand sector and stimulate growth. After the crisis, a significantly reduced supply of public and private investment funds will be available both in Germany and the EU. In view of cumulative effects, it is all the more important to approach possible new regulations with extreme restraint and preferably to avoid them altogether.

An indispensable prerequisite for the implementation of any economic exit scenario is **transparent and early communication** on the part of economic policymakers and constant dialogue with the Mittelstand economy and its business associations. Business and politics must establish functional structures for mutual information and coordination in order to be able to react flexibly to changes and unknown challenges at any time. **Reliable and clear announcements of economic policy** are required here. This is the only way to secure the confidence of the economy in the measures of politics. It can also be assumed that under certain circumstances rapid course corrections will have to be made since neither the Mittelstand sector nor policymakers have any experience with such a comprehensive shutdown – in this respect the IfM Bonn can only explicitly support the recommendations of Abele-Brehm et al. (2020). Finally, if possible, a **coordinated approach to the exit from the shutdown** between the federal government and (also between) the individual Länder is desirable.

4 Opportunities and risks of a gradual exit for the Mittelstand economy

In the following, we outline for relevant Mittelstand economic sectors which of them could possibly contribute to a rapid economic revival and in which a longer shutdown is likely to have (considerable) further negative effects. In this context, it should be noted that the German economy is highly complex, e.g. due to the diverse integration of Mittelstand businesses in (international) value chains. Agriculture, for example, where at first glance one would expect only minor effects of the corona crisis, is dependent on supplier products from the chemical industry in addition to increasing problems related to the availability of the required labour force or the maintenance of the agricultural vehicle fleet, which in turn requires a functioning logistics chain. Quantification of the effects of the corona crisis would therefore only be possible, if at all, with extensive simulations, which is why we have to refrain from concrete calculations.

In contrast to many other traditional industrialized countries, the manufacturing industry in Germany still has a relatively high importance. According to Eurostat, 22.4 per cent of the total gross value added in Germany in the fourth quarter of 2018 was accounted for by the manufacturing industry. In the eurozone as a whole, however, the figure was only 16.7 per cent. Particularly important industries in 2017 in terms of gross value added were vehicle construction (5.3 per cent), mechanical engineering (3.5 per cent) and metal production (2.6 per cent). These three industries together contribute more to gross value added than trade (10.0 per cent). Other service sectors such as real estate (10.6 per cent), liberal profession, scientific and technical service providers (6.4 per cent) and other business service providers (5.1 per cent) also make significant contributions. Hotels and restaurants account for only 1.6 per cent of gross value added.

Despite the shutdown, Mittelstand businesses in the **manufacturing sector** still seem to continue to operate relatively normally. Large-scale production shutdowns have so far been limited to the automotive industry. This is due, among other things, to the good equity capital situation of the Mittelstand, stable supply chains and integration into well-functioning international value chain networks. Some Mittelstand suppliers are currently still benefiting from the good order situation. However, companies facing a slump in demand are also looking for and finding ways to deal with the situation adequately: In many cases, production is stockpiled, or production is switched at short notice to goods that are needed to cope with the crisis (protective masks and clothing, supplier parts for ventilators, etc.), even if this can only provide very limited relief for the time being. Many of these companies belong to the group of so-called "hidden champions"

(Mittelstand world market leaders). It is precisely these companies that have a stabilising effect in the crisis, because they make greater efforts to retain their workforces than management-run companies (see Schlömer-Laufen et al. 2015). At least in case of a moderate duration of the current situation, these companies should be able to make a good contribution to reviving the economy.

- For these companies, the currently offered support measures (loans, short-time work compensation) should also be sufficient in the medium term, as long as both are quickly and comprehensively available. Tax measures such as tax deferrals or the suspension of advance payments also make an important contribution to ensuring that additional liquidity is not withdrawn from the companies.

However, Mittelstand businesses are dependent on their international supply chains not breaking down due to the asynchronous course of the corona pandemic in other countries. In mechanical engineering or the textile and fashion industry, for example, there are strong links with Northern Italy. Depending on their sales markets or the countries in which they have their production facilities, some globally active, Mittelstand businesses may be affected by the corona pandemic several times over (China, Europe, USA) and then get into economic difficulties through no fault of their own. In this case, it would have to be examined on a case-by-case basis, whether further support (loans, guarantees, possibly temporary sales guarantees) is necessary.

The situation is more problematic for **suppliers in the manufacturing industry**, which are highly specialised and are primarily involved in value chains of those industries that have currently scaled down their production (e.g. automotive industry). These are usually smaller companies, often also regionally concentrated. Short and medium-term changes in production technology can only be achieved at a high cost. It will not be possible to maintain production in the long term after accumulated orders have been processed and inventories replenished. In the medium term, there is likely to be a reduction in employment if the declining industries are not able to ramp up production again quickly.

- For these companies, further offers of support must already be examined in the short term. Feedback from Mittelstand businesses shows that the respective house banks, for example, handle the provision of promotional loans very differently and hesitantly because they fear bad debt losses due to insolvency in the medium to long term and therefore do not want to bear the risk. The banks' 100 per cent indemnity against liability, which has now been introduced, should provide the best incentive in this respect.

Due to the spatial situation on most construction sites, the **construction industry** tends to be able to comply with, for example, corona-related distance requirements. In this respect, activities can be continued now and in the future, at least in Germany. In some cases, however, there are (regional) construction site closures in other EU countries. Staff shortfalls due to illness or quarantine sometimes cause difficulties. In this context, the current border closures also pose a problem, as some personnel from neighbouring EU countries are no longer able to access or work on the construction sites. In general, however, the construction industry, in particular, could be a pillar of economic recovery. Road construction projects, for example, can be completed particularly well and quickly due to the currently greatly reduced traffic volume. This presupposes, however, that the suppliers of building materials and construction materials can also produce in sufficient quantities. Due to the existing complex supply networks, this could be a difficult task.

- Most construction companies are likely to get over the corona-related crisis comparatively well, at least in the short and medium-term. This is also helped by the very good order situation in recent years, which has made it easier to build up reserves. If problems do arise in individual cases, the measures adopted to date should be sufficient. In particular, the improvements in the short-time working allowance should be mentioned here.

In many cases, the **retail trade** can probably be resumed to a limited extent. For consumption-oriented sectors of daily use and the (upscale) specialist retail sector, one can assume that consumers will catch up on some of their "saved" demand and thus contribute to stimulating economic activity. Local conditions may have to be adjusted if necessary, and the protective measures now in place in many stores should be maintained. Smaller/compact shops are likely to have a problem because the distance requirement will probably remain important for some time to come. Restricted exit from the shutdown should not only have a significant psychological impact on the population but also ensure that there will be no massive loss of employment in the retail sector.

However, this does not necessarily apply to the **seasonally oriented trade**, such as the clothing trade, which will probably remain largely stuck with its spring and summer collections. Demand will shift to online retailing, which will accelerate the already apparent shift from stationary retail to major online providers. Another winner could be large chains that are currently open as basic suppliers but offer seasonal articles in addition to their food range. As a consequence, numerous closures of seasonal companies are to be expected. However, this process is not solely due to the current crisis, but is part of a structural change that is underway anyway.

- Large parts of the retail trade are considerably affected by the current shutdown. In many cases, however, it will be possible to make up for the lack of demand for resuming business operations. In this respect, the measures currently decided upon (short-time work to reduce personnel costs, possible suspension of rental payments, loans to cover remaining fixed costs) appear sufficient. Far-reaching support for structurally endangered retail companies is problematic from a regulatory point of view and should be granted only cautiously despite the jobs that depend on it.

Gastronomy could be resumed to a very limited extent, i.e. with distances between tables and the resulting sharp reduction in capacity. Some restaurateurs are currently making a virtue of necessity and offering delivery/collection services. All this can probably alleviate the problems of existence in this economic sector, but it cannot solve them. The spring season may help some businesses, as outdoor catering, for example, should be less problematic. All in all, the catering industry is currently severely affected by the shutdown: Despite continuing fixed costs, sales are plummeting sharply and cannot be made up for.

- Even if business operations are partially resumed, the economic situation of most companies will remain tense. For the foreseeable future, they will be dependent on state support. Since lost sales cannot be made up, loans are of only limited help here. This holds especially because a fundamentally weak credit rating in the catering trade must be taken into account (according to current figures from ZEW and Creditreform, 16 per cent of companies with fewer than 50 employees -– 24,000 – have a weak credit rating). Here it has to be examined whether the currently available federal and state subsidies, which address different company sizes, are sufficient or whether a gap has arisen which needs to be remedied in the short term.

The **culture/entertainment sector** is probably the most problematic. Events with an audience seem unlikely for a long time; this area is likely to be affected by the shutdown for the longest time. Many artists, musicians and museums, both public and private, are currently digitally active, new event formats are emerging (living room concerts, digital exhibition visits, etc.). These events are still offered without payment or, at best, against a voluntary donation. However, sustainable business models cannot be developed from this. Parts of the creative industries will be dependent on further direct transfer payments at least in the medium term, both for the payment of operating costs and for the entrepreneurs' own livelihoods.

- The maximum level of the subsidies now adopted is likely to be significantly too low for some companies (e.g. private theatres, cinemas) due to the level of running costs. If local authorities act as landlords here, one could consider a rent deferral.

However, the municipalities would probably have to receive compensation payments for this. High running costs may well be a secondary problem for the many micro companies and solo entrepreneurs in the creative sector. However, they will often be dependent on help to make a living. Here, the basic income support (ALG II) is a sensible instrument. The current extensive suspension of some of the regulations are important in this regard: the assets audit has been suspended, likewise the need for beneficiaries to reduce fixed living costs by, e.g., moving houses or changing tariffs in the private health insurance; and the need for the job agencies to point self-employed to wage employment. It should be examined whether this might be maintained for entrepreneurs from the creative sector for some time, even after the situation has normalised.

Tourism is likely to remain problematic for the foreseeable future. It is true that catch-up effects appear to be conceivable to a limited extent following a relaxation of the shutdown measures. However, even if travel activity is in principle possible again, psychological obstacles could also prevent a rapid recovery in demand. At least with regard to long-distance travel, the current problems could act as a deterrent against the background of short-term restrictions that may occur at any time in the near future. Instead there may be a renaissance of regional trips or day trips, thereby partially compensating for declining sales.

5 Mittelstand-related policy measures

In our opinion, the extensive package of measures adopted to date is fundamentally well suited to cushion the initial effects of the crisis on corporate liquidity and jobs. When looking at the economic sectors, we have already mentioned where improvements may be necessary in the medium and long term if the shutdown cannot be gradually eased, at least for some sectors. In any case, transitional phases are recommended for the measures adopted so far and for further measures, if necessary with a degressive structure. Also, the simplified application procedure introduced for some measures should not end abruptly but should be phased out gradually.

The measures adopted so far will place a heavy burden on the national budget. For this reason, the proposal to dispense with all checks, which is sometimes made in view of the time factor, appears problematic from a regulatory point of view in the medium to long term. It can neither make sense to keep "zombie companies" alive nor to make all companies happy with the watering can. In the long term, it should be examined whether (again) stronger access restrictions have to be introduced.

Regulatory aspects should also be taken into account when considering whether further measures should be introduced and are necessary in the medium and long term. It does not make sense in the long term to massively support existing companies whose prospects in the market are doubtful due to an expected structural change. It may be more sensible to foster the creation of new companies after the crisis has been overcome. Although the solution to these issues should ultimately be left to competition, it is likely to result in a well-balanced policy of "both this and that".

Last but not least, every crisis is also an opportunity to change entrenched routines and try something new – which we are currently seeing in the rapid establishment of home office and mobile working as well as in the surge in digitization – and not only at the operational level. This aspect should not be overlooked or forgotten in the necessary current focus on short-term crisis management.

According to the special report of the German Council of Economic Experts (SVR, 2020), 93 per cent of all companies in the sectors which are particularly affected by the crisis (i. e. aviation, hospitality, travel agencies, tour operators and provision of other reservation services, as well as art, entertainment and recreation) can be classified as micro-enterprises (vs 89.1 per cent in the overall economy), which in addition only generate an average annual turnover of just under € 170,000 (overall economy: around € 336,000). These companies have only small reserves and need support in the medium, if not long-term.

The **emergency aid** provided by the Federal Government and the Länder is well suited in the short term to cushion abrupt losses of income. Larger Mittelstand businesses are also confronted with the problem of falling sales while costs continue to be incurred. However, loans and guarantees are of little help to those Mittelstand businesses that cannot hope for any catch-up effects. Here, the subsidies paid out by the Federal Government and the Länder are to be strongly welcomed.

- However, the Länder are taking different approaches: while Bavaria also includes companies with up to 250 employees in the emergency aid, the maximum limit in Baden-Württemberg or Hesse, for example, is 50 employees. Here it is the responsibility of the respective Länder to examine to what extent the circle of those entitled can and must be extended. Alternatively, the Federal Government could examine to what extent this is possible and desirable in the context of its emergency aid.
- The maximum amount of emergency aid should be sufficient in most cases, especially due to the combination possibilities of federal and Länder funding. However, it is not sufficient for individual companies with very high running costs. In this case, it should be examined whether higher aid can be granted in justified exceptional cases.

However, the extent to which the agreed subsidies are sufficient depends to a large extent on the sector concerned. Emergency aid is likely to play a greater role in the medium to long term, particularly in those sectors of the economy which will remain closed in the long term or whose economic activity is severely affected by the contact regulations. It is likely that those sectors that are more vulnerable to the crisis will remain closed the longest and would, therefore, need to be given the most support.

Even for companies that were economically stable before the pandemic, it can be assumed that survival problems can arise during a longer shutdown. In the case of companies that were healthy before the crisis, the current range of **promotional loans**, in particular, the KfW Quick Loan agreed on 6 April with 100 per cent indemnity, suspension of risk assessment and a ten-year term, should initially provide sufficient support in the medium term.

- Especially for micro-enterprises with up to 10 employees, which are not able to draw on the KfW credit line, which is now 100 per cent guaranteed by the state, a 100 per cent indemnified guarantee framework of the guarantee banks should also be opened.

However, the subsidised promotional loans are not the appropriate solution in all cases, even with 100% liability exemption. For companies and/or economic sectors that were already experiencing economic problems before the pandemic but were not facing insolvency (e.g. the forestry sector, with around 1.1 million employees, which was severely affected by the past hot summers), credit assistance is not a solution because of the credit assessment that still has to be carried out.

- Here, the **emergency fund** envisaged by the Federal Ministry of Finance (BMF) for specific assistance with actual payments such as rent, electricity and water (SVR, RZ153, p. 78) could offer a useful supplement.

The **short-time work allowance** (KuG) serves to maintain the workforce in Mittelstand businesses in the short to medium term. It is thus an important prerequisite for a rapid resumption of production or the provision of services. During the financial crisis (June 2009) SMEs made much less use of the short-time working allowance than large companies (see Münstermann et al. 2012). In the current pandemic crisis the take-up will be higher because many micro-enterprises are directly threatened by closures (according to a ZDH flash poll this affects 16 per cent of the responding crafts enterprises) or are affected by considerable slumps in demand (according to the DIHK flash poll more than half of the enterprises expect slumps of more than 25 per cent). This is not yet apparent in the current statistics of the Federal Employment Agency (BA), as only those applications that have been examined and approved are shown. However, the number of 470,000 notifications of short-time work received in March by the Federal Employment Agency (according to its 31 March Press Release No. 19) indicates that currently also numerous micro-enterprises want to make use of the short-time work allowance. By comparison: At the height of the financial crisis, only around 60,000 companies had some of their employees working short time. This is certainly also connected with the fact that the application - as promised - can be made as unbureaucratically as possible. It is also helpful that, in contrast to previous crises, this time, the Federal Agency will also pay the social insurance contributions (SV) that are due. Particularly in personnel-intensive companies, these contributions can represent a considerable block of fixed costs and make the use of short-time work compensation unattractive for companies.

- It should be noted that the short-time work allowance has already proved its worth in past crises. It enables companies to reduce their personnel costs in the short term and sustainably without having to lay off proven skilled employees on whom they are urgently dependent once the crisis is over. The further development of this instrument through the assumption of social security contributions by the Federal Employment Agency is very welcome, especially from the perspective of Mittelstand businesses, and is certainly also a reason why the short-time working allowance is apparently also being used heavily by small companies now. Still necessary remains a practicable solution for including trainees in the short-time work allowance.

Tax liquidity support: In its special report, the German Council of Economic Experts points out that income tax acts as an automatic stabiliser for the self-employed due to its progressive course (SVR, 2020, RZ 136, p. 71). However, this is only partially effective and efficient because the effect is strongly lagging behind and will only take effect with the next tax return. In addition, a loss carryback is only permitted with the previous year in accordance with § 10d EstG and is limited to € 1 million. For many companies, this is probably much too late. In this respect, e. g., the suspension of tax prepayments or even tax deferrals are more important in the short term.

- In the medium to long term, the extension of the tax loss compensation proposed by the SVR (extension of the time and amount limits) and the increase in the volume of tax loss carryforwards in income, corporation and trade tax are to be welcomed, especially for Mittelstand businesses (SVR, 2020, p. 77).

Support for young businesses and start-ups: With regard to start-up dynamics, it remains to be seen to what extent it will collapse and which economic sectors and types of new businesses (start-ups, business succession, micro-enterprises, etc.) will be particularly affected. It is also currently difficult to estimate when there will be a renewed increase in start-up activity – either during or after the crisis (see the estimates in Welter et al. 2020). The package of measures planned by the federal government for start-ups is particularly interesting for those start-up projects that want to enter the market with innovative business models because it places the support of venture capital investors in the foreground. From the point of view of smaller, less innovative start-up projects and Mittelstand businesses, the envisaged facilitation of possible forms of financing that can replace venture capital and equity capital is to be welcomed in principle – however, more detailed information for a differentiated assessment is not yet available here (as of April 4, 2020).

- In the medium term, it should also be examined whether and to what extent further measures need to be taken to stimulate the general start-up dynamics. The reintroduction of a start-up subsidy, for example, would be a tried and tested option which, in the sense of immediate start-up assistance, would enable direct support for founders, whether new businesses or takeovers. The details of this subsidy would have to be examined more closely, e.g. with regard to the amount and duration of the payment and the circle of those entitled to it. If such a start-up subsidy is to be understood this time less as labour market support and more as start-up support, then the grant should not again be linked to the existence of unemployment. On the other hand, the conceptual review of the start-up concept should be maintained.

Possible measures for other target groups: The packages of measures adopted to date and other measures under discussion are primarily geared to the different enterprise sizes within the Mittelstand sector. This is at first correct and appropriate. In the medium to long term, however, it may also be necessary to design measures specifically for target groups if the diversity of the Mittelstand sector is to be maintained, for example with regard to the entrepreneurial activities of women, migrants, older or younger persons. Corresponding Mittelstand-related policy measures would have to take into account complex problem situations that have worsened in the Corona crisis. To illustrate this with an example: As long as schools and nursery schools are closed or open only with restrictions, the entrepreneurial activity of women is likely to be more restricted than that of men, because they are still mainly responsible for childcare. Mothers may therefore only be able to restart at a later date, even if they are working in an economic sector that is given priority.

Regional support: Germany is not equally affected by the Corona crisis. There are noticeable regional differences: On the one hand, because the pure number of infections is subject to considerable regional differences, but also because the economic effects can vary greatly depending on the specific industry structure and economic power. However, if the Mittelstand sector is to regain its strength, regionally stable supply relationships and supply chains are also required. Against this background, the complementary use of regional policy instruments is likely to be of great importance in overcoming the current crisis. These are to be reviewed with regard to the current need for adjustment.

- By bringing forward planned infrastructure measures, important impulses for economic stabilisation in particularly affected regions can be achieved. Local authorities could also temporarily defer advance payments of trade tax. Relief effects can also be achieved through public procurement measures. Similarly, the permissible thresholds for direct (regional) awarding of contracts or for awarding contracts restricted to Germany could be temporarily raised in order to support Mittelstand businesses in particularly disadvantaged regions.

In addition to further measures related to size, target groups and sectors, it is also necessary to examine which **framework conditions and regulations** need to be adapted in general in order to get the Mittelstand sector "back on its feet" quickly. Even before the outbreak of the corona crisis, the bureaucratic burden was regarded by many companies as a central obstacle to growth. In addition to practical difficulties in dealing with bureaucratic requirements, a large proportion of companies criticised the lack of sense and the high intensity of control/regulation density in a recent study by the IfM Bonn (cf. Holz et al. 2019). In order to overcome the current corona-related crisis, it is therefore important to noticeably reduce the bureaucratic burden and thus to free up urgently needed financial, time and personnel resources of companies for their original value creation and to avoid unnecessary stress and uncertainty.

The Corona crisis can only be solved by a joint effort of all those involved in politics, business and society. The Mittelstand is currently trying to respond pragmatically and with goodwill to the current challenges. Economic policymakers should encourage and reward this commitment by, among other things, relieving Mittelstand businesses of many information and documentation obligations, at least temporarily.

- The extent and frequency of the so-called "paperwork" can be reduced and (reporting) deadlines postponed. A model could be, for example, the measures already taken in the nursing sector to relieve nursing activities of any form of bureaucracy that is not absolutely necessary (e.g. reduction of the documentation effort by suspending the nursing MOT until the end of September). In the case of companies that switch their production at short notice in response to loss of sales or bottlenecks (for example, protective equipment), reporting and approval procedures could be simplified and limited to the most important (inspection) aspects. Since the bureaucratic burden in the perception of the large majority of Mittelstand businesses does not result exclusively from the state sector, but also includes non-governmental regulation, the self-governing bodies of industry and other bodies with legislative competence should also be included in these considerations.

References

Abele-Brehm, A.; Dreier, H.; Fuest, C.; Grimm, V.; Kräusslich, H.-G.; Krause, G.; Leonhard, M.; Lohse, A. W.; Lohse, M. J.; Mansky, T.; Peichl, A.; Schmid, R. M.; Wess, G.; Woopen, C. (2020): Die Bekämpfung der Coronavirus-Pandemie tragfähig gestalten. Empfehlungen für eine flexible, risikoadaptierte Strategie, Koordination: Clemens Fuest und Martin Lohse, 2. April 2020, München.

Deutscher Ethikrat (2020): Solidarität und Verantwortung in der Corona-Krise. Ad-hoc-Empfehlung, Berlin.

Holz, M.; Schlepphorst, S.; Brink, S.; Icks, A.; Welter, F. (2019): Bürokratiewahrnehmung von Unternehmen, Institut für Mittelstandsforschung (IfM) Bonn: IfM-Materialien Nr. 274, Bonn.

May-Strobl, E.; Haunschild, L. (2013): Der nachhaltige Beschäftigungsbeitrag von KMU – Eine sektorale Analyse unter besonderer Berücksichtigung der FuE- und wissensintensiven Wirtschaftszweige, Institut für Mittelstandsforschung (IfM) Bonn: IfM-Materialien Nr. 206, Bonn.

Münstermann, L.; Schneck, S.; Wolter, H.-J. (2012): Die Bedeutung des Kurzarbeitergeldes für den Mittelstand, Institut für Mittelstandsforschung (IfM) Bonn: IfM-Materialien Nr. 215, Bonn.

Pahnke, A.; Holz, M.; Welter, F. (2019): Unternehmerische Zielsysteme: Unterscheiden sich mittelständische Unternehmen tatsächlich von anderen?, Institut für Mittelstandsforschung (IfM) Bonn: IfM-Materialien Nr. 276, Bonn.

Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung (SVR) (2020): Die gesamtwirtschaftliche Lage angesichts der Corona-Pandemie. Sondergutachten. 22. März 2020, Wiesbaden.

Schlömer-Laufen, N.; Lamsfuß, C.; Große, J.; Chlosta, S. (2015): Wirtschaftliche Entwicklung großer Familien- und Nichtfamilienunternehmen – eine Bilanzdatenanalyse für den Zeitraum 2008 bis 2012, Institut für Mittelstandsforschung (IfM) Bonn: IfM-Materialien Nr. 235, Bonn.

Schneck, S.; May-Strobl, E. (2013): Wohlstandseffekte des Gründungsgeschehens, Institut für Mittelstandsforschung (IfM) Bonn: IfM-Materialien Nr. 223, Bonn.

Welter, F.; Wolter, H.-J.; Kranzusch, P. (2020): Vorläufige Einschätzungen des IfM Bonn zu den wirtschaftlichen Auswirkungen der Coronaviruspandemie auf den Mittelstand. Stand 26. März 2020, IfM Hintergrundpapier, Bonn.

Wolter, H.-J.; May-Strobl, E. (2013): Der Beschäftigungsbeitrag mittelständischer Exportunternehmen, Institut für Mittelstandsforschung (IfM) Bonn: IfM Materialien Nr. 220, Bonn.

Zentrum für Europäische Wirtschaftsforschung (ZEW); Creditreform (2020): Corona-Pandemie gefährdet Existenz vieler Unternehmen, ZEW-Pressemitteilung vom 18.03.2020, https://www.zew.de/presse/pressearchiv/corona-pandemie-gefaehrdet-existenz-vieler-unternehmen/, (last accessed on 06.04.2020)