KONRAD ADENAUER STIFTUNG

Economic Systems as Virus Hosts

A Comparison of German Social Market Economics vs. US-Style Capitalism during the Covid-19 Pandemic

Andrew Adair and
Marcus Marktanner

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Executive Summary

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- While neither Germany nor the United States was positioned to engage in “shock therapy” to stem the Covid-19 pandemic, Germany was structurally better situated to manage key aspects of the crisis than the United States.

- On the epidemiological side, Germany’s overall adherence to science (including rapid development and deployment of mass testing), effective public-information campaigns, and high levels of public adherence led to a more effective initial response phase than in the United States, and has resulted in a significantly lower death rate (only 20-25 percent of the American rate at the time of publication).

- On the economic side, Germany can expect the Covid-19 crisis to generate shocks to GDP, growth, and other macroeconomic indicators on a similar scale to the United States. In terms of public-policy tools, however, Germany’s ability to rely on time-tested programs like Kurzarbeit (its short-time work scheme), stable universal health insurance that is not job-connected, and strong protections for tenants, give it a structural advantage over the United States to handle other downstream economic consequences of the pandemic. Despite the depth of the current crisis economically, rates of German unemployment and uninsured have changed very little, while in the United States they have undergone historic disruptions.

> Kurzarbeit and universal health insurance have deep roots in Germany's social market economic philosophy – which seeks to harness the benefits of market capitalism while simultaneously restraining its worst excesses. We conclude that far from socialism (which embraces central planning, the nationalization of the means of production, and the idea of equal consumption justice), a well-functioning social market economy is market-based and pro-competition. Indeed, the element of solidarity that distinguishes the social market economy from laissez-faire capitalism is exactly what makes it a more competitive economic order. Behavioral studies confirm that human nature is most aligned with a market-based economy that also accounts for substantial levels of solidarity and social responsibility.

> Under the current crisis, Germany's existing tools of solidarity have allowed it remain economically competitive by preventing wreckage associated with economic depressions (mass unemployment, massive public-health crises, and massive housing insecurity).

> In the United States, the public-policy tools needed to prevent large-scale pandemic fallout have developed more incrementally and are far more induced by crisis. The American health insurance system is, at bottom, tied to employment and hence job loss often leads to the loss of health coverage. Safety-net coverage such as Medicaid requires Americans to enroll in a new health plan, and eligibility can vary based on one's state of residence. The principal tool to prevent mass unemployment during the Covid-19 crisis was developed and enacted in a matter of days, and has been plagued with design flaws. Evidence suggests that a wave of evictions could begin in January 2021, once a current moratorium on evictions expires.

> We conclude that the United States could only benefit from the adoption of more forward-looking social-market economic tools, but American policymakers often misconstrue the economic benefits of a well-ordered social-market economy by mistakenly conflating it with Soviet-style socialism. This represents a stumbling block that will likely only continue to worsen in the short term, as political debate in the United States is marked by increased political polarization and lack of reasoned debate.

> As such, increased transatlantic dialogue between policymakers from both Germany and the United States is essential, in order to recover from the Covid-19 crisis and to prepare for the next global pandemic. Regardless, American policymaking will likely continue to be marked by instability and incrementalism, making long-range preparation for future pandemics challenging.

1

Economic Systems as Virus Hosts?

The economic realities of 2020 have given the German social market economy and the United States' more laissez-faire oriented economic systems a stress test like nothing since the Great Depression of the 1930s. The initial impressions notwithstanding, the economic fallout of the Covid-19 crisis has already eclipsed the financial crisis of 2008-2009, by orders of magnitude not foreseen during the first quarter of 2020 (Fuest, 2020).

Some countries are managing the fallout of the virus more effectively than others. Based on a high-level examination of the economic data, there can be no doubt that Germany has, so far, managed the economic consequences of the pandemic relatively well – most notably by keeping more of its workers employed and able to pay for living expenses, including health insurance and housing. The economic fallout in the United States, on the other hand, has been marked by larger waves of unemployment, health insecurity, and potentially in early 2021 – housing insecurity. The question of this report is accordingly: What explains the differences in "socioeconomic immunity" to the pandemic between Germany and the United States?

A comparison of the tools used by Germany and the United States can offer help in understanding how better to prepare for the next crisis. A pandemic's impact is determined by both random and systemic factors. It is the systemic factors that ultimately must bring a pandemic under control. The widest disparities in epidemiological dynamics and policy responses could have reasonably been expected to be found between advanced and less developed countries. Because advanced countries have more resources available, they should in theory more successfully manage pandemics. We now know, however, that this is not necessarily the case. Success in the fight against a global pandemic depends less on financial resources, and more on a combination of public policy, self-responsibility, and solidarity.

The United Kingdom, for example, has at the time of this writing more Covid-19 deaths than the entire African continent. While public health experts cite differences in demography and possibly pre-existing cross-immunizations, others point out that Africa's success is due not only to good luck. African countries took early warning signs seriously and policymakers acted quickly and responsibly, while in many parts of the West, radical conspiracy theories took hold, including beliefs that Covid-19 is nonexistent, not fatal, or even a "cover up for child sex trafficking rings". Unfortunately, the wealth of nations does not protect against the poverty of common sense (Spring et al., 2020).

The economic impacts of a pandemic are manifold, reenforce one another and form a vicious cycle of uncertainty. As people experience a deterioration of their quality of life and witness themselves and others close to them fall sick or even lose their lives, they become afraid to congregate and social fabrics become porous. As a result, household consumption falters, firms lower their investment activity, and workers are laid off. Personal health concerns become compounded by economic fears, which reduce private consumption and firms' investment activity even more. As households and firms consume and invest less, countries' tax bases shrink and governments must borrow more in order to meet increased social spending needs. A pandemic is a prime textbook example for a complex macroeconomic shock.

The only way to break the vicious cycle is to bring the pandemic under control and thereby restore economic actors' plannability. One could consider two principal approaches for this: The first (which could be called "shock therapy") prioritizes quick eradication of the pandemic via severe restrictions on individual freedoms. The second principal approach (gradual sequencing), on the other hand, prioritizes managed containment of the pandemic but with fewer restrictions on individual freedoms.

Shock-therapy and gradual sequencing are fundamentally distinct – both politically and economically. Shock-therapy requires individuals to subordinate themselves to the common good – or else a strong central authority to enforce it. Under shock therapy, citizens pay a high political price for a short period of time in terms of sacrificing individual freedoms, but a low economic price in terms of forgone economic activity. Under gradual sequencing, citizens pay a low political price for a longer period of time, and a high economic price in the form of forgone economic activity.

China has used shock therapy to manage its Covid-19 pandemic; Germany and the United States both fall under gradual sequencing. But the German and American approaches are also distinguishable from one another: Germany, because of more general safety nets in the areas of unemployment protection and health care, is better positioned to sustain and manage the high economic price than the United States.

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As we explore and elaborate upon in this essay, Germany's economic and health-care system is rooted in the concept of a "social market economy," and the United States' in "laissez-faire capitalism." A social market economy rests on the belief that individual freedom is bound together with a mandatory social responsibility. From a German perspective, investing as a solidarity community into social safety nets and equal opportunity is a "conservative" policy, in the sense that such a system conserves individual freedom, the competitiveness of every citizen and the society.

Under the school of social market economic thought, the solidarity community is not meant to create a welfare state, but rather to prevent one. Solidarity in a social market economy means to provide individuals with equal opportunity and only as a last resort to provide public assistance (a modern version of alms for the poor). In laissez-faire capitalism, on the other hand, social responsibility is predominantly voluntary, and by no means a precondition for individual freedom. As a result, the laissez-faire approach tends to lean on acute emergency response, and precautionary socioeconomic emergency preparedness, such as social safety nets, are deemphasized. Viewed through this prism, we can see why Germany has shown greater "socioeconomic immunity" to the Covid-19 pandemic than the United States.

In public dialogue, these differences are often misrepresented. In the United States, Germany's social market economy (with its robust social safety component) is often painted as "European-style socialism." Yet, Germany developed this system to correct market failures, create equal opportunity, promote individual freedom, and strengthen national competitiveness. Conversely, Germans tend to perceive the United States' social safety system as largely non-existent, when in fact the United States devotes substantial resources to social insurance, public assistance, and other public benefits. A more nuanced examination is therefore necessary for a more informed transatlantic public debate. The difference between Germany and the United States lies not so much in the question of which country spends more on social safety nets, but how well anchored these policies are in the countries' political and economic fabric.

Our main argument is to rebut the contention that the two models can be contrasted simplistically as "socialism" versus "free market competition."

We begin this report in section two with a broad overview of the concept of Europe's and Germany's social market economy, with the goal of clearing up certain misconceptions that often prevail in the United States. Our main argument is to rebut the contention that the two models can be contrasted simplistically as "socialism" versus "free market competition." Instead, they should be viewed through the lens of market failure: while the social market economy actively seeks to correct market failure, the laissez-faire model (as the words imply) does not generally seek to prevent market failure. Perhaps counterintuitively to some American readers, we posit that correcting market failures strengthens competition, whereas ignoring market failures weakens competition.

In section three, we compare how the pandemic unfolded in Germany and the United States and how the two countries responded to it. Our main conclusion of this section is threefold: First, we find that the different responses to the pandemic are not a point of abrupt divergence, but continuation of already existing health policy trajectories. Second, we propose that public health dynamics and policy responses to the pandemic are not isolated public health challenges, but that they are interwoven with labor market and social policies in general. Third, we conclude that these differences in public health care outcomes can be attributed to the adherence of social market economic principles in Germany on the one hand, and the resistance to market failure correcting interventions (based on an incorrect understanding of “socialism”) in the United States on the other hand.

In section four we compare in more detail three specific policy areas in Germany to the United States: the short-time work model (known as “Kurzarbeit”), health insurance, and protections against eviction. We conclude that these policies help explain Germany’s greater socioeconomic resilience during the Covid crisis. More generally: no precautionary action can prevent a need for a cure, but that every cure becomes cheaper when more precautionary actions had been taken.

We conclude in section five with a summary of our main findings and outlook for a more productive transatlantic policy debate.

2

Socioeconomic Resilience in Germany and the United States: A Look at Philosophies

The Covid-19 pandemic has given rise to questions that go far beyond public health. The crisis has caused citizens the world over to reconsider the interplay between individual freedoms, social responsibility and the role of the state. For some, mask mandates meant to contain the spread of the virus are tantamount to an infringement of individual freedoms. For others, it is the lack of mask requirements that violates their individual freedom. For many of us who have never lived through a global pandemic, these are novel questions, that at times generate political controversy and division.

The crisis has caused citizens the world over to reconsider the interplay between individual freedoms, social responsibility and the role of state.

The questions of what constitutes individual freedom, what constitutes solidarity, and what role the state should play, are as old as political philosophy. The answers to these questions ultimately also help define the differences between laissez-faire capitalism and a social market economy – as well as socialism. More fundamentally, the answers to these questions flow from the idea of the human being, the idea of justice and the idea of the role of the state.

Economic Systems and the Nature of the Human Being

Laissez-faire, socialism, and social market economics can each be viewed as unique combinations of the same three elements: Self-interest, self-responsibility and solidarity. Self-interest here refers to the tendency of individuals to value their own well-being more than that of someone else. Because of self-interest, the shipwrecked fight over the last remaining seat in a lifeboat. Self-responsibility here refers to the tendency of individuals to prefer economic empowerment, self-determination, and self-reliance to serfdom, subordination, and alms. Solidarity here refers to the tendency of individuals to care for the well-being of others – even while they are also self-interested. The shipwrecked who made it into the lifeboat will then help others climb into it if the rescue of others does not jeopardize the lives of those already in the boat.

Under the theory of laissez-faire, individuals are characterized by high levels of self-interest and self-responsibility, and low levels of solidarity. This does not imply that laissez-faire economists think that individuals lack a social consciousness. But laissez-faire economics generally does not focus on solidarity, and indeed presumes that societal benefits are maximized when actors behave predominantly in their rational self-interest.

In a theoretical socialist world, individuals are marked by low levels of self-interest and self-responsibility, but high levels of solidarity. Again, these assumptions do not imply that socialists deny that human beings seek both self-interest and self-responsibility; on the contrary, socialist economists were clearly aware that individuals have a strong tendency toward these attributes. But under classical socialist thought, self-interest and self-responsibility have no legitimate place and are deemphasized as undesired. Therefore, in order to align the actual human nature to the socialist ideal, socialist regimes historically have expended political efforts into cultural revolutions, surveillance states, and propaganda. These efforts were generally costly to society as millions of people have lost their lives in labor camps, prisons, and through mismanagement-induced famines.

In contrast, social market economists envision the individual as endowed with high levels of all three characteristics: self-interest, self-responsibility, and solidarity. Thus, viewed as different weightings of these along a spectrum, laissez-faire and socialism could be viewed as diametric opposites, with no overlapping elements. Meanwhile, social market economists agree with socialists that free markets fail to provide equal opportunity, but strictly reject everything else about socialist economic thought. For social market economists, inequalities of economic opportunity in the marketplace can be corrected by rules-based policies that empower disenfranchised citizens, not by central planning that disempowers the entire nation.

Findings from experimental economics support the view of social market economics that people are in fact both self-interested and solidary – as opposed to being only self-interested (laissez-faire) or only solidary (socialist). So-called “ultimatum games” generate these results. In an ultimatum game, an experimenter appoints two players: an allocator and recipient. The experimenter gives the allocator a sum (say, ten dollars) to divide and share with the recipient. The recipient can either reject or accept the share proposed by the allocator. If the recipient accepts the allocator’s offer, the two players can keep the money according to the agreed-upon split. Yet, if the recipient rejects the allocator’s offer, no player receives anything. These ground rules are known to both players.

Laissez-faire theory based on the pursuit of pure self-interest would dictate that an allocator offers only one cent and that the recipients would accept this offer. Offering one cent maximizes the utility of the allocators under the constraint that they need to share some amount with the recipients. Likewise, why would a purely self-interested individual reject one cent? Socialist theory based on the assumption of pure solidarity would predict that the allocators offer exactly half and, of course, that the recipients would accept. Every individual is committed to equal consumption.

Under social market economics, on the other hand, the allocators offer substantially more than one cent, but also substantially less than five dollars. The allocators can reasonably expect that a one-cent offer would be rejected because the recipients’ increase in income by one cent is offset by their distaste for inequality. On the other hand, because everyone in a social market economy accepts self-interest, the recipients also understand the allocators’ desire to keep more than what the recipients are offered, but within a reasonable range.

What do the experimental results suggest? Oosterbeek et al. (2003) surveyed 75 ultimatum games played in 26 countries. The findings show that the allocators offer on average around 40 percent of the amount, while the average offer rejected is approximately 15 percent of the amount. These results support the social market economic axiom that human nature comprises a combination of self-interest, self-responsibility, and solidarity (i.e., a desire for equitable development). According to the findings, one could say, as a rule of thumb, that most individuals give the pursuit of self-interest a weight of around 60 percent and the concern for solidarity a weight of around 40 percent. Yet, regardless of the exact numbers, what is reasonable to conclude is that most people are not completely consumed by either of the two extremes of pure self-interest or exclusive subordination to solidarity.

Economic Systems and Justice

What assumptions about markets and efficiency guide social market economics? Social science is generally concerned with three justice concepts: Efficiency justice, equal opportunity justice, and distributive justice. Efficiency justice means that those who contribute more to the pie because they work harder or are more productive shall also receive a bigger slice of it. The fishermen who spend longer hours out on the sea, or the more skilled fishermen, can expect to consume more or generate more income from selling their catch.

Equal opportunity justice implies that there are no structural barriers in access to economic opportunities. No child born into the community of fishermen is disadvantaged in accessing the skills necessary to become a fisherman.

The concept of distributive justice needs to be divided into two subcategories: Socialist and market-based distributive justice. Socialist distributive justice means that irrespective of individuals' contribution to the pie, all members of society receive equal shares of the pie. A cosmonaut receives the same consumption opportunities as a farmer. Market-based distributive justice implies that every distribution of income is just, as long as it is the result of equal opportunity. Thus, while the distribution of income is highly equal in socialism, in market economies with equal opportunity, some inequality may emerge as a result of choice (working harder) or innate differences in efficiency (being naturally smarter).

Socialists and market economists (both laissez-faire and social market economists) motivate their economic philosophies in their different answers to the following two questions: First, are efficiency, equal opportunity, and distributive justice natural rights of the individual? Secondly, are efficiency, equal opportunity, and distributive justice natural states of the free market?

In laissez-faire, socialist distributive justice is, obviously, rejected as a natural right. Instead, efficiency, equal opportunity, and market-based distributive justice are natural rights of the individual. The free market also provides them naturally. While it is easy to see that in a free market more productive individuals also receive greater shares of income and that equal opportunities lead to market-based distributive justice, the idea of equal opportunity as a natural state of the free market is not immediately obvious. The basic rationale for equal opportunity in laissez faire is that in a free market there are no structural barriers in access to economic opportunities. A child with a beautiful voice born into an impoverished community has the same opportunities to become a famous opera singer as a child with the same beautiful voice born into an affluent society. How? Under the assumption of perfect markets, the child born poor will stroll one day singing through the streets and, because markets and information are assumed to work perfectly, be discovered by a benefactor who will sponsor the child's musical training. Then, once the child becomes a famous opera singer, she will repay the benefactor. The free market is therefore a facilitator of vertical social mobility – at least on a theoretical level.

In socialism, equal opportunity and socialist distributive justice are individuals' only natural rights. Efficiency justice and market-based distributive justice are not. Naturally, socialist-distributive and efficiency justice are mutually exclusive. More productive members of socialist societies do not want more income than less productive workers. Because all differences in productivity are due to innate human characteristics, not unequal opportunity, it would be unfair for a more productive individual to ask for more income. As for equal opportunity, socialism does not create equal opportunity in access to market-economic activities, but equal opportunity in access to employment opportunities within the central plan. Everyone enjoys equal opportunity to become a cosmonaut.

Social market economists agree with laissez-faire thinkers that efficiency, equal opportunity, and market-based redistributive justice are natural rights of the individual. They also agree with socialists, though to a lesser degree, that the free market fails to provide equal opportunity, and strongly disagree with socialists that this failure is so severe that a replacement of the free market by a central plan would be necessary. Instead, equal opportunity can be created through public policy which complements and strengthens the market system whenever it fails. Once equal competitive opportunity is established, social market economists also see efficiency and market-based distributive justice as natural states.

Social market economies advocate for equal competitive opportunity through public policy which complements and strengthens the market system whenever it fails.

Economic Systems and the Role of the State

What different assumptions about the role of the state guide social market economics? The answers to the two questions "What is the nature of the human being?" and "What is a just market?" also define the answer to the question of "What is the role of the state?"

Ludwig von Mises (1881-1873) describes the role of the state in laissez-faire economics (once known as "liberalism") as follows:

> "Liberalism is not anarchism, nor has it anything whatsoever to do with anarchism. The liberal understands quite clearly that without resort to compulsion, the existence of society would be endangered and that behind the rules of conduct whose observance is necessary to assure peaceful human cooperation must stand the threat of force if the whole edifice of society is not to be continually at the mercy of any one of its members. One must be in a position to compel the person who will not respect the lives, health, personal freedom, or private property of others to acquiesce in the rules of life in society. This is the function that the liberal doctrine assigns to the state: the protection of property, liberty, and peace" (Mises, 1985, p.37).

The German socialist Ferdinand Lassalle (1825-1864) ridiculed this minimalist conception of government by labeling it a "night-watchman" state. For socialists, the idea of a state that provides merely the bare minimum protections to persons and property is a crude and absurd notion. This model of economic governance would only further hardship, rather than promote peace and prosperity.

Yet, von Mises' equation of the role of the state with limited government must be interpreted in relative, not absolute, terms. In absolute terms, state minimalism means that the role of the state should always be kept at an absolute minimum. State minimalism in relative terms, however, means that the scope of the state needs to be determined in relation to given socioeconomic challenges, especially those affecting peace and social cohesion. The laissez-faire (in Europe referred to as liberal) state philosophy in a country with high inequality of access to economic opportunities and therefore high social conflict potential will not necessarily resemble a state with highly unequal access to economic opportunities. Karl Schiller (1911-1994), a German economist and Germany's Minister of Economic Affairs between 1966 and 1972, once famously said: "As much market as possible, as much state as necessary" (German original: "So viel Markt wie möglich, so viel Staat wie nötig;" see, for example, Klaeren, 2007). This motto has since become a commonly accepted principle within social market economic thought.

Social market economics is about identifying the order, rules, and economic policy principles with the objective of balancing the freedom in the market with equitable social development.

While the night-watchman state is concerned primarily with the protection of property, the socialist state is concerned with the "abolition of private property" (Marx and Engels, 1848, p.22). Engels (1892, p. 62 f), referring to the work of Henri de Saint-Simon (1770-1825), an early utopian socialist, holds that politics will become a "science of production," completely absorbed by economics. What will happen is a "conversion of political rule over men into an administration of things and a direction of processes of production – that is to say, the 'abolition of the state.'" To what extent does the Marxist theory translate into today's realities?

The idea of the role of the state in a social market economy was developed in Germany during the interwar period amid great political turmoil. Socialism was on the rise as an alleged alternative to laissez-faire capitalism, and fascism on the rise as an alleged alternative to socialism. Alfred Müller-Armack (1901-1978), economist, Christian Democrat, and director of the economic policy department in the Ministry of Economy (1952-1958), coined the term social market economy in 1947 as an alternative to all three – laissez-faire, socialism, and fascism. He wrote:

> "I have suggested that this new economic system should be called the 'Soziale Marktwirtschaft' (the social market economy), and this term has met widespread approval. Our economic policy will only gain general acceptance if it abandons its excessive ideological stance and tries to establish a basis of common conviction

> on which it will be possible not only to attain the goals of social justice but also to secure a genuine economic management in place of the present fictitious system" (Müller-Armack, 1947, p. 10).

In a social market economy, the economy is based on private ownership and free markets, but the state plays a regulatory role. Neither are markets considered to work as miraculously in favor of all citizens as laissez-faire supporters may argue, nor are they as disastrous to society's peace as socialists claim they are. Ludwig Erhard (1897-1977), economist, Christian Democrat, and Germany's first post-war Minister for Economics (1949-1963), as well as Germany's second post World War II chancellor (1963-1966), liked to compare the role of the state in a social market economy to the role of a referee in a game of soccer. Specifically, Erhard (1958, p. 102) noted:

> "I believe that, as the referee is not allowed to take part in the game, so the State must not participate. In a good game of football (soccer) it is to be noted that the game follows definite rules; these are decided in advance. What I am aiming at with a market economy policy is – to continue with the same illustration – to lay down the order and the rules of the game."

Social Market Economics is about identifying the order, rules, and economic policy principles of an economy which has the objective of balancing the freedom in the market with equitable social development. The referee, in this sense, takes a less active role than the maximalist socialist state, yet a more active role than the minimalist night-watchman state.

These interpretative differences in fundamental philosophical views about the nature of the human being, the realization of justice, and the role of the state ultimately shape the demarcation lines between socialism, laissez-faire capitalism, and social market economics. Moreover, they demonstrate that the differences between social market economics and laissez-faire capitalism are rather small, and confined to different views on markets' ability to provide equal opportunities. Social market economics considers markets to work less efficiently in providing equal opportunities than laissez-faire capitalism. Based on lessons from history, social market economists see a role for the state as particularly important in the areas of competition policy, social policy, and environmental policy (Eucken, 2004). For social market economists, unregulated markets are no guarantor for economies to stay competitive and for all citizens to gain equal access to healthcare and education, and thus, the state needs to play the role of guarantor for peaceful, equitable, and sustainable development. The strong conviction in social market economics that unregulated markets create in certain areas socially undesirable results gave reason to define a more proactive role of the state in areas, especially in education and health care. Yet, before we discuss this, we want to first look at how the pandemic unfolded in the United States and Germany.

For social market economists, unregulated markets are no guarantor for economies to stay competitive and for all citizens to gain equal access to healthcare and education, and thus, the state needs to play the role of guarantor for peaceful, equitable, and sustainable development.

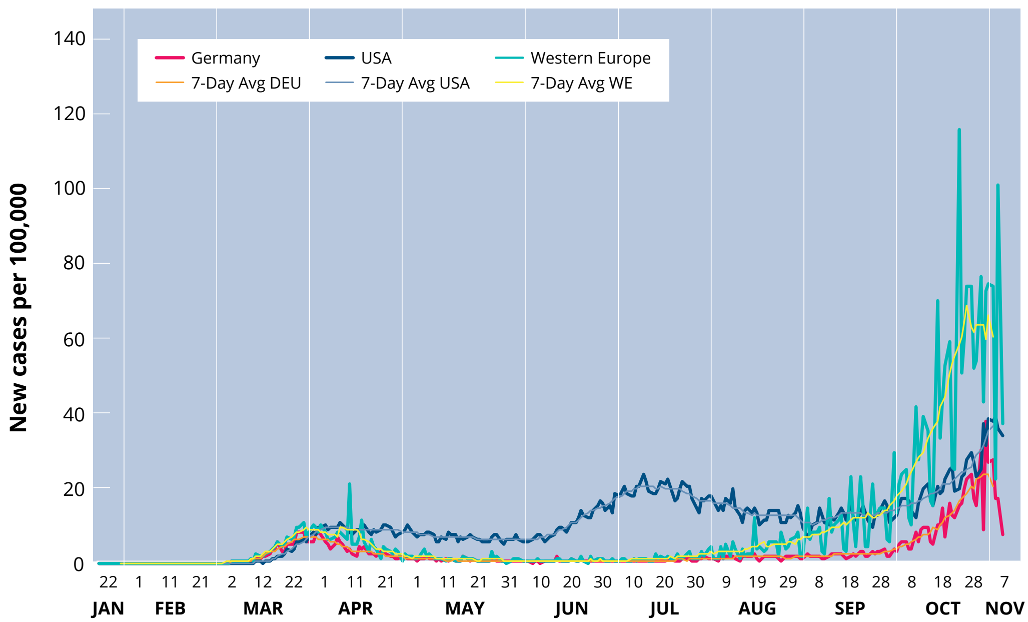
3

Covid-19: Comparing Epidemiological and Socioeconomic Dynamics

On May 21, 2020, the Pew Research Center (2020) published a report entitled "Americans Give Higher Ratings to South Korea and Germany than U.S. for Dealing with Coronavirus." The report, based on a survey of 10,957 adults in the United States, found that 66 percent of the surveyed rate Germany's response as either good or excellent, compared to 47 percent for United States' handling of Covid-19. The report also notes that "Americans largely agree the U.S. should look beyond its borders for ideas to combat the coronavirus."

Figure 1 displays the development of new Covid-19 cases in Germany and the United Stated between January 22 and November 9, 2020 (per 100,000 population) as well as the corresponding seven-day moving averages. For comparison purposes, it also shows the Western European average.

Figure 1. *New Covid-19 cases in Germany, the United States, and Western Europe (January 22–November 9, 2020)*



SOURCE: Constructed from data available at Johns Hopkins University Center for Systems Science and Engineering (https://data.humdata.org/dataset/novel-coronavirus-2019-ncov-cases, retrieved November 10, 2020).

This comparison of the spread of Covid-19 in Germany and the United States shows that Germany, as opposed to the United States, successfully "flattened the curve" after the first wave in early 2020. Germany is nevertheless still far from having brought the pandemic under control. Daily new cases per million have risen sharply since the second wave beginning in October 2020 and reached levels close to the ones of the United States. Despite recent spikes in new cases, in comparison to the United States,

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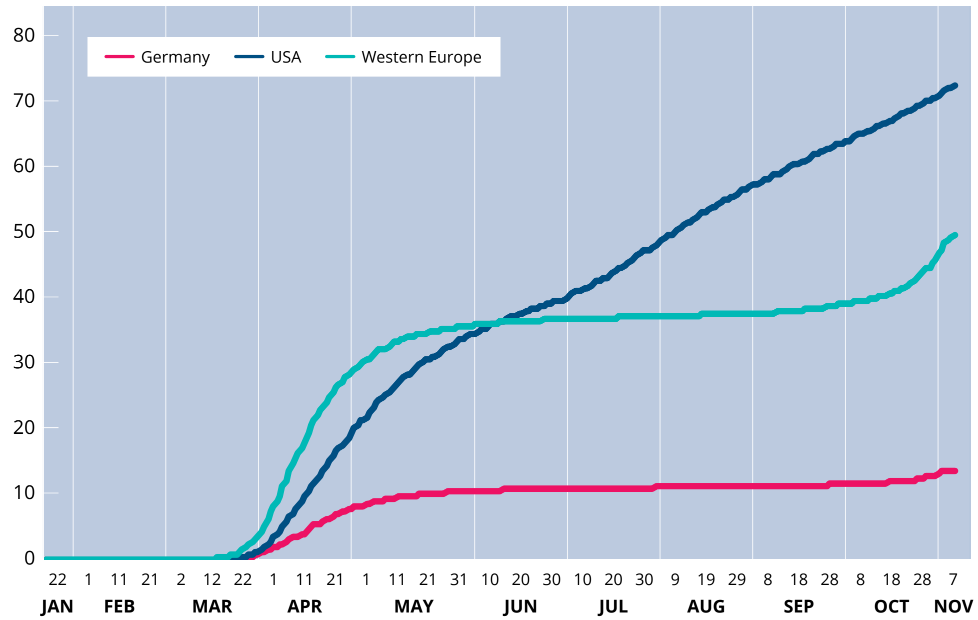
there is little doubt that Germany's response to the pandemic has been more effective overall. As a response to fast-rising new cases, in October 2020, in a coordinated effort among the federal and regional governments, Germany reintroduced strict restrictions on private and public gatherings, and completely closed restaurants and bars. Compared to the extent of their containment measures, the speed at which they were passed and the consensus among policy makers, citizens and health scientists, Germany is – even with some limited opposition – much less contentious than the United States.

Germany has also managed the pandemic more effectively in comparison to the average of other Western European countries. Italy, Spain, and France are much harder hit. In terms of new cases, the second wave in Europe has even surpassed the United States. The dramatic spike of new cases in Western Europe, however, has not yet led to a surpassing of the United States' cumulative total cases since the outbreak began. At the time of this writing (November 9, 2020), total recorded cases per one million in Germany, Western Europe, and the United States stand at 8,286, 24,465, and 30,720, respectively.

Germany's stronger resilience to the pandemic is also subject to intra-European analyses. Belluz (2020), in her article "The 4 simple reasons Germany is managing Covid-19 better than its neighbors," identifies four L's for Germany's greater resilience, which are: Luck, learning, local responses, and listening. Belluz attributes to luck the fact that Germany had readily available lab capacities that allowed for the development and application of tests quicker than in other European countries. Quick learning in Germany took place in the areas of rolling out tests, building laboratory capacities, tracing contacts, and creating public awareness. Localized responses, while often criticized for creating confusion across different jurisdictions (states, cities), have proven to be an innate structural advantage of the German political system, allowing for the implementation of solutions narrowly tailored to specific communities.

The absence of quick local responses is also blamed for France's higher case count. Bernard Jomier, a French physician and politician, for example, lamented: "On 10 January, the Chinese shared the information on the virus to the global scientific community. The Pasteur Institute [a top French research institute] received it, prepared the test and sent it to the national laboratories. Then, nothing happened. At the same time, the Germans were manufacturing tests on a massive scale" (quoted in Woods, 2020). Lastly, the fourth "L", listening, captures the fact that Germany's government took the advice of scientists seriously from the very beginning, or as Belluz (2020) notes: "It also helps that Angela Merkel has a doctorate in quantum chemistry and heads a country that treats scientists, like the Berlin-based virologist and podcaster Christian Drosten, like superstars." As a result of its more effective policy response, Germany

Figure 2: *Cumulative Covid-19 deaths per 100,000 (January 22 – November 9, 2020)*



SOURCE: Constructed from data available at Johns Hopkins University Center for Systems Science and Engineering (https://data.humdata.org/dataset/novel-coronavirus-2019-ncov-cases, retrieved November 10, 2020).

saved more lives than the United States, which is shown in Figure 2. Prorated to 100,000 of the population, Germany's cumulative deaths by November 9, 2020 stands at 13.7 and in the United States at 72.4 – a death rate that is roughly 427% higher.

Again, for comparative purposes, Figure 2 also shows the deaths per 100,000 for Western Europe as a whole. It shows that the death rate for Western Europe increased during the first wave slightly earlier than in the United States, but then flattened in May 2020. Compared to Western Europe, the United States' death rate does not show any signs of flattening and increases continuously for the entire observation period. When looking at Figure 2, the explanation is simple: More cases, more deaths.

If the United States had the same Covid-19 mortality rate as Germany, it would have witnessed almost 200,000 fewer deaths as of November 9, 2020. Instead of an actual total death toll of 238,256, the United States' number of deaths would have been only 45,147, or around 81 percent fewer.

If the United States had the same COVID-19 mortality rate as Germany, it would have witnessed almost 200,000 fewer deaths as of November 9, 2020.

To what extent do differences in policy responses explain the different epidemiological dynamics? The Blavatnik School of Government at the University of Oxford has developed a Coronavirus Government Response Tracker with timelines of policy responses in the areas of containment, economic support, and health system policies. Figure 3 summarizes the dates on which Germany and the United States introduced for the first-time response policies (for simplicity, not accounting for ordinal differences in the magnitude and stringency of the measures, for which the dataset also accounts).

Figure 3: *Dates of first policy interventions Germany and the United States as of August 25, 2020*

	Policy	First Record of Government Response Germany	First Record of Government Response USA	Days Difference USA – Germany
Containment and Closure Policies	*School closing*	2/26/2020	3/5/2020	8
	Workplace closing	3/22/2020	3/19/2020	-3
	Cancel public events	2/29/2020	3/1/2020	1
	Restrictions on gatherings	3/10/2020	3/11/2020	1
	Close public transport	8/27/2020	3/17/2020	-163
	Stay at home requirements	3/9/2020	3/15/2020	6
	Restrictions on internal movement	3/18/2020	3/14/2020	-4
	International travel controls	2/28/2020	2/2/2020	-26
Economic Support Policies	*Income support*	3/16/2020	3/27/2020	11
	Debt/contract relief	4/1/2020	3/27/2020	-5
	Fiscal measures	3/23/2020	3/6/2020	-17
	International support	5/4/2020	2/7/2020	-87
Health System Policies	*Public information campaigns*	1/24/2020	3/16/2020	52
	Testing policy	1/27/2020	2/28/2020	32
	Contact tracing	1/22/2020	1/21/2020	-1
	Emergency investment in healthcare	3/23/2020	3/6/2020	-17
	Investment in vaccines	2/6/2020	3/6/2020	29

SOURCE: Blavatnik School of Government, University of Oxford, Coronavirus Government Response Tracker.

Figure 3 shows that the policy responses in a variety of policy fields were implemented on similar timeframes. There are some surprising discrepancies, though. In fact, in many areas the Unites States reacted much earlier. The United States introduced policies to close public transportation in March of 2020, for example – months before anything similar occurred in Germany. These closures were not universal, but targeted individual public-transit systems. Yet these closures were not always driven by public-health concerns, but often by economic necessity. George and Shaver (2020), for example, write that in addition to containment objectives, closures of rail stations in Washington, D.C. during the first quarter of 2020 were necessary "to save dwindling cleaning resources" and respond to "low ridership." When not coordinated with strict stay-home orders, however, the reducing or only partially closing of public transportation may in fact be counterproductive to containing the virus, which Taylor (2020) captured succinctly: "No Bus Service. Crowded Trains."

The United States also introduced much earlier international travel controls. International travel controls can indeed effectively limit trade of the virus across borders, but, of course, does not affect the spread of the virus domestically (so-called "community spread"). The same argument applies to the early direction of development aid against the fight of the pandemic outside the borders of the United States.

Lastly, earlier emergency investments in health care are not necessarily an indicator of response effectiveness but reflect the pre-existing deficiencies in preparation for a public health crisis. This lack of preparation was ultimately evidenced by a scattershot approach, especially regarding stay-at-home orders. In April 2020, Kates et al. (2020) noted that the U.S. approach "can result in ongoing transmission in one state or community, even as transmission is interrupted in a neighboring area. This could extend the period of spread for the U.S. overall and prolong the need for social distancing in much of the country." While this prediction was correct with regard to continued epidemiological dynamics, the consequential need to prolong the need for social distancing in much of the country was generally downplayed, and not as strictly enforced as in Germany.

If one were to draw conclusions as to the differences in the spread of the virus and the deaths as listed in Figure 3, the answer must lie in Germany's much earlier actions in introducing public information campaigns and testing. The fact that Germany rolled out testing early on is particularly important; Germany already developed the first Covid-19 test kit in January of 2020, even before its first confirmed case in February. Combined with public information campaigns about social distancing and mask-wearing, early testing capabilities resulted in more known cases. Yet, among these cases were naturally many with weak symptoms and low death probabilities, which naturally drove down Germany's fatality rate.

Germany's early response in testing yielded benefits for individual patients and public health, too. Early detections allowed for more effective and timely medical treatments and contact-tracing. Unsurprisingly, Covid-19 patients also have a greater chance of

Germany's universal health-care system also plays a role: In the United States infectious people with mild Covid-19 symptoms but no health insurance are less likely to see a doctor than the same person living within a universal health care system.

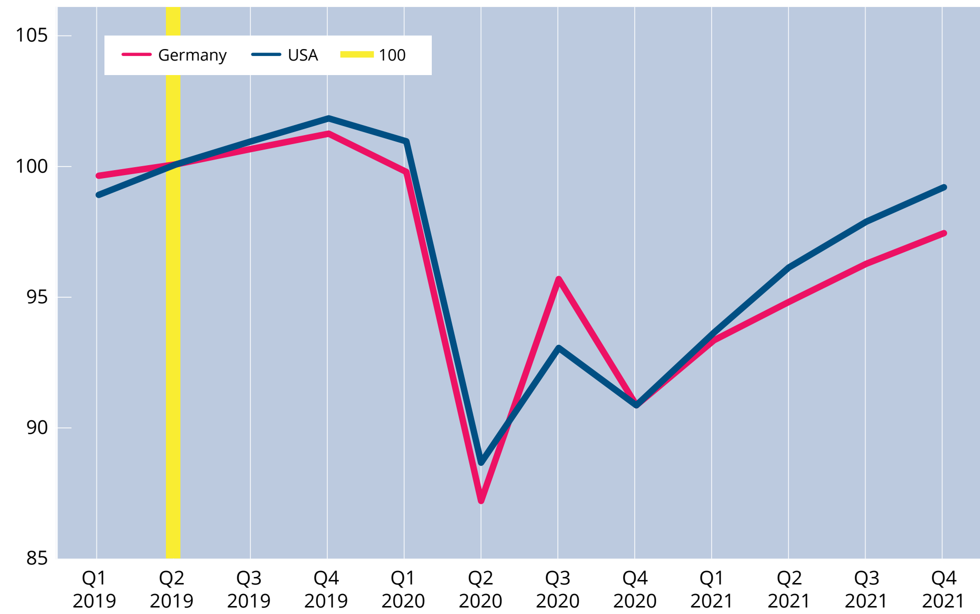
recovery and survival when they have access early on to appropriate diagnosis and treatment. Conversely, early response capabilities are not useful when people do not access them due to the prospect of unpredictable and ruinous out-of-pocket medical bills. Thus, Germany's universal health-care system also plays a role: In the United States infectious people with mild Covid-19 symptoms but no health insurance are less likely to see a doctor than the same person living within a universal health care system.

According to the OECD (2017), 99.9 percent of Germany's population has access to core health care services. In the United States, 90.9 percent of the population has access to core health care services. According to Shortell, cited in Manke (2020), "[t]hose without insurance [in the United States] tend to be lower income, have less than high school education, work in low wage jobs, live in areas that have more pollution and fewer health resources, and generally are in poorer health. Thus, they may be particularly susceptible/vulnerable/at risk for the coronavirus." However, statistics do not suggest that the uninsured are more likely to spread the virus. In fact, the uninsured unemployed may be more likely to stay at home and have fewer social interactions. The situation might be different though when looking at uninsured low wage earners (the so-called "working poor") and Shortell notes that this group is "more likely to go to work even when they are ill and should stay at home, because the low wage jobs typically do not have good sick leave policies, and people need the income."

What about the economic fallout of the pandemic? Figure 4 shows the so-called "double-hit" forecast scenario developed by the OECD (2020), reflecting that both countries' GDP reached their trough in the second quarter of 2020. When indexing the second quarter of 2019 as the benchmark (Index=100), Germany and the United States lost 12.8 percent and 11.3 percent of their GDPs, respectively. Yet, while Germany seemed to be hit slightly harder than the United States when it reached the trough in the second quarter of 2020, the OECD predicts Germany to recover more quickly after the first wave, but more slowly after the second one. The macroeconomic impacts, however, are similar.

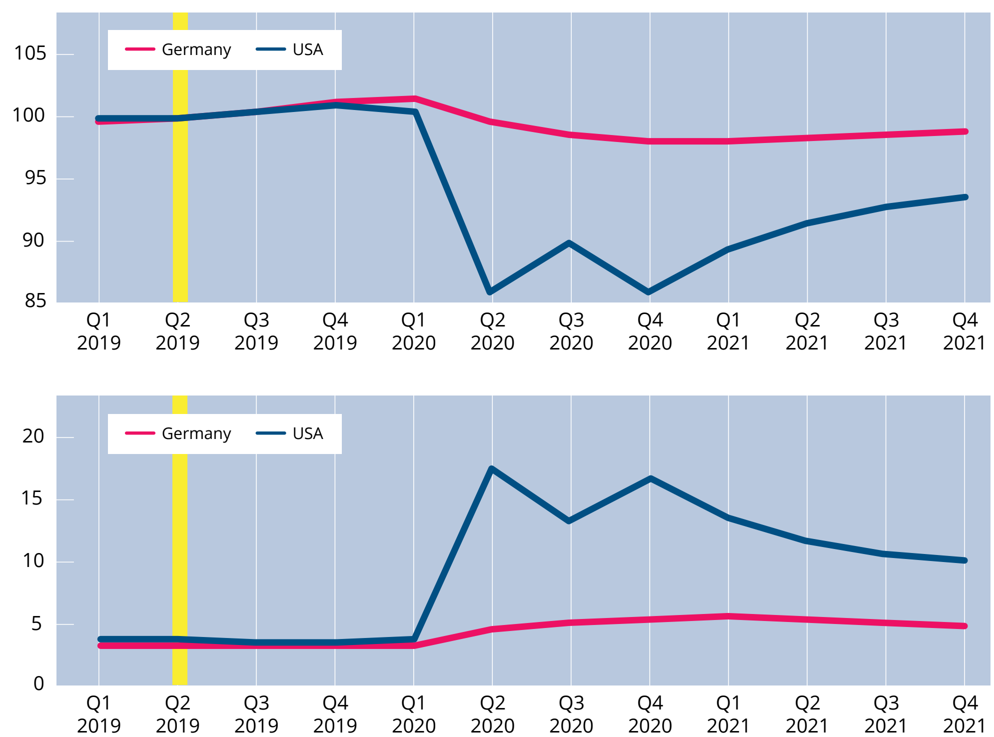
Distinctions in economic resilience between Germany and the United States become more apparent, however, when looking at total employment and the unemployment rate for which OECD (2020) also made "double-hit" predictions and which are shown in Figure 5. The figure shows that while Germany is predicted to be economically hit slightly harder than the United States, Germany's job market resilience is substantially more robust than the one of the United States. On average, for every percentage point in decline of GDP, Germany loses roughly 0.22 percentage points in total employment, the United states roughly 1.76 percentage points, approximately eight times more.

***Figure 4:** Gross Domestic Product, Q1-2019 – OECD Forecast Q4-2021 (Q2-2019=100)*



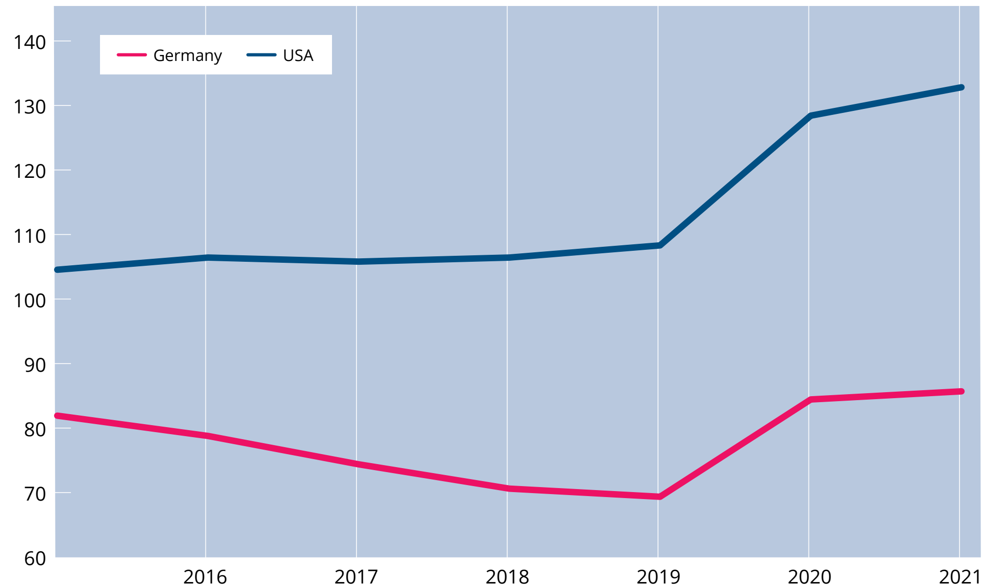
SOURCE: Calculated from OECD (2020).

***Figure 5:** Total employment and unemployment rate, Q1-2019 – OECD Forecast Q4-2021*



SOURCE: Calculated from OECD (2020).

***Figure 6:** General government gross financial liabilities as a percentage of GDP (2015-2021)*



SOURCE: OECD (2020).

The Covid-19 pandemic has forced governments around the world to cushion the economic fallout with various stabilization and social assistance programs. Both Germany and the United States needed to borrow and increase public debt to enact rescue programs (Figure 6). When using the OECD's public debt indicator "general government gross financial liabilities as a percentage of GDP," Germany concluded the year 2019 with a total debt burden of 69.3 percent of GDP, a value which still stood at 81.5 percent in 2015. The OECD predicts that, largely as a result of the pandemic, Germany's public debt will reach 85.3 percent by the end of 2021, an increase by 16 percentage points compared to 2019. In comparison, public debt in the United States increased from 104.6 percent of GDP in 2015 to 108.5 percent in 2019. The OECD predicts that public debt in the United Stated will stand at 133 percent by the end of 2021, an increase of 24.5 percentage points compared to 2019.

The OECD predicts that, largely as a result of the pandemic, Germany's public debt (% GDP) will increase from 69.3% in 2019 to 85.3% in 2021, a plus of 16 percentage points. For the same period, public debt in the United States is predicted to increase from 108.5% to 133%, a plus of 24.5 percentage points.

Germany's greater epidemiological resilience is likely due to differences in systemic tools such as health insurance and labor market management. These, in turn, are a result of differences in market-economic philosophies.

Thus, when comparing the epidemiological dynamics and their economic impact of Germany and the United States, Germany has proportionally far fewer cases and deaths. While in macroeconomic terms both countries are proportionally hit similarly, Germany's labor market and fiscal resilience is much stronger. While random factors may account at least partly for epidemiological differences, much credit also goes to the divergent policy responses and economic philosophies. Germany took the early warning signals about Covid-19 more seriously and likely saved many lives as a result of its early testing strategy and awareness creation. The fact that Germany's labor market and fiscal capacity shows greater resilience than those of the United States, despite similar losses in GDP, may only be partially attributed to Germany's public health preparedness and response. Instead, Germany's greater epidemiological resilience is likely due to differences in systemic tools such as health insurance and labor market management. These, in turn, are a result of differences in market-economic philosophies. Germany's economic model originates in the philosophy of a social market economy, which seeks to balance the freedom in the market with equitable social development. The United States, on the other hand, continues to cling to an economic philosophy rooted in laissez-faire capitalism. It is during just such a crisis as a global pandemic caused by a novel virus that the social-market economy shows its inherent strengths, while the inherent weaknesses in the laissez-faire system are laid bare.

4

Containing the Economic Damage of Covid-19: A Look at Policies

Having examined the epidemiological and socioeconomic dynamics and philosophical underpinnings of the two economic systems, our final question is: How are the different economic philosophies expressed through American and German policy, and do those policies account for Germany's comparative resilience?

We examine three specific expressions of the German social market economy through policies that are designed to preserve jobs, health, and housing during negative economic cycles. We examine the American counterparts and conclude that although the United States (like Germany) lean heavily on public resources to soften the blow of economic harm, its policies are often designed incrementally, hastily, and (due to heightened political polarization) are more unstable and hence less durable than their German analogues – and as a result less effective.

First, we look at the short-term work scheme in Germany ("Kurzarbeit") – which is designed to keep workers employed when there is a short-term drop in demand which causes employment to contract. The United States has attempted to implement similar short-term work schemes – but with less success.

Second, we look at the German health-insurance system, which provides a generous benefit on a universal basis, through a heavily regulated system of insurers and providers. The American system – while also a heavily regulated system of private insurers and providers – is far more fragmented, costly, and falls short of achieving universal coverage.

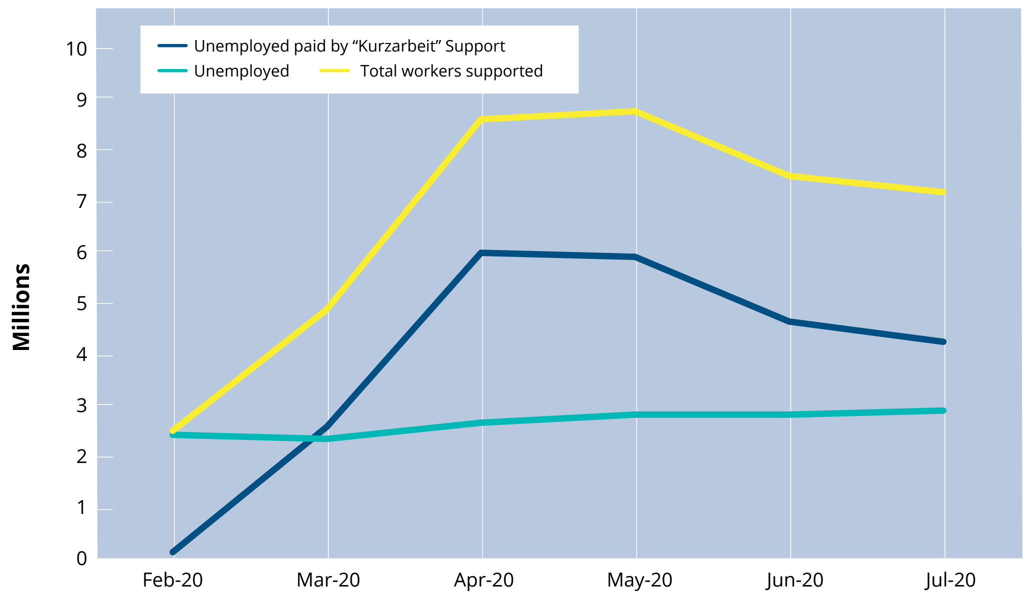
Finally, we briefly examine housing protections in Germany, that by and large prevent mass homelessness, even during economic downturns. Protections for renters under U.S. law are much weaker, necessitating a patchwork of temporary emergency measures during times of severe economic hardship.

Unemployment Protection – The "Kurzarbeit" Models in Germany vs. the United States

A core element of Germany's socioeconomic resilience during the pandemic has been the country's "Kurzarbeit" (short-time work) scheme, under which employers are eligible to receive public funding in order to keep their workers employed during short-term drops in demand. For a limited period of time the German federal government subsidizes the employer's cost of having to cut worker hours; in short, the employer acts as a pass-through vehicle for the government to deliver public assistance to workers, while also keeping the workers de facto employed. The scheme "dates back to the early 20th century and is credited with being one of the reasons Germany recovered so quickly from the 2008–2009 recession" (Bevins, 2020).

Before 2020, the number of German workers paid with "Kurzarbeitergeld" peaked in May of 2009 at 1.5 million. This year, the Kurzarbeit program broke all records, ballooning from supporting a relatively "normal" 132,000 workers in February (Bundesagentur für Arbeit, 2020) to almost six million German workers in May 2020 (around 13 percent of the labor force). When viewed in comparison to the number of unemployed workers reported by the German government, one can conclude that the Kurzarbeit system is flexible enough to absorb massive unprecedented spikes in demand.

***Figure 7:** Number of German workers paid by "Kurzarbeit" and Unemployment Insurance, 2020*



SOURCE: Bundesagentur für Arbeit (2020).

Germany's short-time work model prevents workers from descending into unemployment with all its associated public health costs and contributes to preserving Germany's competitiveness.

Notably, "if only a fraction of the workers being supported by Kurzarbeit had instead been laid off, German unemployment would have approached and perhaps even surpassed that in the United States. Alternatively, if a fraction of workers in the U.S. who were laid off had instead been put on short-time compensation, our unemployment increase would have been much smaller than was observed" (Gimbel et al., 2020). Figure 7 above demonstrates that the Kurzarbeit system is absorbing the shock of a massive drop in demand which could have led to a much more damaging unemployment picture. Importantly, the system also allows for employeremployee bonds to be maintained, which are not easily replicated after a recessionary period. Kurzarbeit is accordingly an investment in maintaining existing stocks of capital and labor as well as their historic expertise, competitiveness, and productivity. Thus, in addition to preventing workers from descending into unemployment with all its associated public health costs and homelessness, depression, alcoholism, suicides and domestic violence, Kurzarbeit has contributed to preserving Germany's competitiveness.

The roots of the Kurzarbeit system goes back to 1910, when the German Empire established the "Kali-Gesetz" to help support mine workers when the demand in the potash industry declined. In 1927, the German Republic of Weimar broadened the program's scope to include other industry branches (Will, 2010). This expansion (called the "Gesetz über Arbeitsvermittlung und Arbeitslosenversicherung") is considered the most important social reform of the Republic of Weimar (Bundesagentur für Arbeit, 2017). The program is a direct outgrowth of the solidarity principle ("Solidargemeinschaft") which as previously discussed is the element that distinguishes the social market economy from the laissez-faire philosophy. This principle was already firmly embedded in Germany in the late 19th century (Petzold, 2020).

The current German government has made further updates to this law in 2020 – mainly in order to ensure that the program is sufficiently financed to handle the unprecedented demand. Although some spirited debate persists in Germany about how long the Kurzarbeit system should be financed, there is widespread public understanding of and appreciation for the efficacy of the program.

Notably, 27 U.S. states have established limited short-time compensation (STC) schemes (also known as "worksharing" or "shared work") that "allow an individual who is employed for a portion of the week to collect [unemployment compensation]" (U.S. Department of Labor, 2020). Just as under Kurzarbeit, "under STC, an employer elects to avoid layoffs by reducing the number of regularly scheduled hours of work for all, or a group of, individuals during disruptions to a firm's regular business activity" (Id.). "Participating in an STC program can allow an employer to retain its trained workforce during periods of slow business activity. Thus, the employer can preserve operational continuity during the slowdown and mitigate hiring and onboarding costs once business conditions improve" (Woodford et al., 2020).

California was the first state to adopt a STC scheme, in 1978 (U.S. Department of Labor, 2016). However, compared to traditional unemployment compensation, "STC has been used very little in the United States, especially during non-recessionary times" (Balducchi and Wandner, 2016). The lack of usage continued even after Congress streamlined and added funding to the STC system through legislation in 2012 (The Layoff Prevention Act of 2012), as well as an additional block of federal funds in the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"). Uptake remains low: a review of claims data from the U.S. Department of Labor in the second and third quarters of 2020 shows that weekly claims under STC in the United States have hovered in the 200,000 to 300,000 range – a mere one-percent of the total unemployment claims, which since the summer of 2020 has ranged from 20 to 30 million.

Balducchi and Wandner (2016) blame lack of awareness as a major factor for lack of uptake, and recommend that the U.S. Department of Labor assign and promote the STC "under a single national brand in a manner similar to the … branding of public workforce offices as American Job Centers." Other factors limiting uptake include the relative ease of terminating workers in the United States, as well as administrative burden on employers of enrolling and participating in the program (Abraham et al., 2014).

Nevertheless, prominent American policymakers continue to promote the STC. Most notably, President-elect Joe Biden embraced the expansion and promotion of STC programs as part of his presidential campaign platform, and explicitly invoked Germany. According to Biden's campaign literature: "Germany has long used short-time work programs to protect jobs in recessions, so that workers are ready to hit the ground running as the economy improves" (Biden for President Campaign Website, 2020). The Biden platform proposes the following specific changes to the existing STC scheme in the United States: (1) establish 100 percent federal financing; (2) secure universal participation; (3) create a tax credit for employers' extra health-care costs; (4) raise caps on employer work reductions; (5) launch major awareness campaign to improve participation; and (6) build automatic triggers based on economic and public health conditions (Id.).

Similarly, a bipartisan economic proposal developed by Jason Furman and Glenn Hubbard (both former White House economic advisors to Presidents Obama and Bush, respectively) and published in June in the Washington Post would also focus on raising awareness, proposing to "encourag[e] firms to use the short-time compensation plans that are available in 26 states, covering two-thirds of workers" (Furman et al., 2020).

In contrast to these efforts that would strengthen and expand existing state systems, U.S. Representative Pramila Jayapal (Democrat – Washington) proposes to establish a unified national STC system (which she calls the "Paycheck Recovery Program"). This proposal "would establish a worker retention program where all public and private employers, as well as independent contractors, domestic workers and gig workers, that have seen a 10 percent or greater revenue loss since 2019, would be eligible for a three-month, renewable lump sum grant payment to maintain their workforce at current wages and benefits, until the nationwide unemployment rate is 7 percent or lower for three months" (House Committee on Financial Services, 2020.) The bill has received a hearing in a House Committee, but House leaders did not select the bill to be included in either of the two Covid-19 rescue bills that have passed the House since May (The HEROES Act and the Updated HEROES Act), opting instead to continue modestly propping up the existing state systems.

In contrast, in March 2020 the U.S. Congress hastily established another layoff-aversion effort called Paycheck Protection Program (PPP) (enacted as part of the CARES Act), specifically to prevent mass unemployment during the Covid crisis.

Congress established this "large and novel small business support program" (Granja et al., 2020) as a temporary rescue effort directly tied to the Covid crisis, meant to expire once the crisis ends. Despite some conceptual similarities between the PPP and Germany's Kurzarbeit system, a direct comparison reveals that they are manifestations of two different approaches to supporting free-market employment.

Despite some conceptual similarities between the PPP and Germany's Kurzarbeit system, a direct comparison reveals that they are manifestations of two different approaches to supporting free-market employment.

The novelty of the PPP has posed substantial problems. Implementation has been rocky; Congress has had to modify the program several times, as have the implementing agencies (The U.S. Small Business Administration and the U.S. Department of the Treasury). While the jury is still out on how effective the program has been in reducing unemployment, there can be no doubt that designing and implementing a brand-new temporary rescue program in the space of a few weeks poses extraordinary challenges. One MIT study from July 2020 (Autor et al., 2020) estimated that the program had preserved between 1.4 million and 3.2 million jobs at that point; even in the most positive light, the program would have only barely dented the pandemic-related job losses, which are estimated at 22 million during March and April (Bartash, 2020).

In comparison, the Kurzarbeit compensation system is available to any German business that meets the economic hardship requirements, regardless of size (Kleffmann et al., 2020). This minimum hardship requirement ("Mindestausfall" in German) is met when at least 10 percent of workers are 10 percent "less busy" – a fairly low barrier to entry into the program. Until March 2020, the minimum hardship rule required 30 percent of the workforce to be impacted (Industrie- und Handelskammer Region Stuttgart, 2020). The PPP, in contrast, is designed for small businesses only (defined by law as those with 500 employees or fewer). This can be viewed as a design flaw – after all, large companies employ large numbers of employees, whose jobs are no less important to preserve.

The purpose of the PPP (as exemplified in the name itself) is not to rescue businesses per se, but rather "to provide a direct incentive for small businesses to keep workers on the payroll" (U.S. Small Business Administration, 2020). Yet many American companies that successfully acquired PPP financing – particularly those in the gastronomic and hospitality fields (e.g., Shake Shack which received a loan for $10 million) have returned their loans, under public pressure. Unlike in Germany, where the solidarity principles of the social market economy allow large and successful companies to avail themselves of public funding to keep employees paid, the American public viewed this as unseemly, leading many larger employers – even those that were eligible – to return the funds. (Many of the large companies eligible for support under the PPP were in the hotel and food services industries, which were specifically exempted from the size limit (see U.S. Department of Treasury, 2020)).

Under Kurzarbeit, a company receives the funds as a grant directly from the Bundesministerium für Arbeit und Soziales (BMAS) (roughly equivalent to the U.S. Department of Labor) financed by tax revenues. Under the PPP, by contrast, the funding comes in the form of short-term low-interest forgivable loans. Trust in government services in the United States is lower than in Germany; trusting in a novel program is arguably even more challenging. Particularly when the program is designed as a loan forgiveness program (rather than a grant program) the result was that "many small businesses … didn't trust banks or the government to forgive the loans" (Gotbaum, 2020). Businesses accepting an SBA loan under the PPP must certify that the funds "will be used to retain workers and maintain payroll or make mortgage payments, lease payments, and utility payments" (see CARES Act, Section 1102(a)).

Kurzarbeit is normally available for a continuous period of 12 months (Kleffmann and Leder, 2020). Due to the extreme nature of the current crisis, the German government has now extended this eligibility to 24 months (up to December 31, 2021 at the latest) (Bundesfinanzministerium, 2020). In contrast, the U.S. Congress initially established the PPP to provide a mere eight-week stopgap benefit – based on the assumption in March 2020 that the Covid crisis would end quickly, and businesses would reopen normally by June 30, 2020. Realizing later that this was an overly optimistic assumption, Congress converted this to a 24-week benefit, with an expiration date of December 31, 2020 (Paycheck Protection Program Flexibility Act, 2020).

As a permanent program, Kurzarbeit is always accessible to employers that experience short-term drops in demand. In that sense there is no "application deadline." Under the PPP, Congress originally set the application deadline for June 30, to correspond with an eight-week benefit. After Congress extended the benefit to 24 weeks, it extended the deadline to August 8. As of the time of publication, there are some $130 billion in funds remaining in the PPP, which are inaccessible. Meanwhile, Congress has failed to muster the political will to re-open the application window for the program to allow businesses to access the remaining funds.

Under the PPP, the program has a fixed amount of funds available, namely $659 billion. Aaron Klein (2020) believes that Congress got the size of the program right and that the challenges with the program are ones of design, not of funding amount. However, others believe that the program was not large enough to meet the demand, and that the application window was opened too late (April 3), after millions of jobs had already been lost (Gimbel et al, 2020).

The administration of the Kurzarbeit scheme in Germany is done through a government agency, the BMAS. The PPP, on the other hand, is administered using participating private lenders as intermediaries (e.g. Chase, Bank of America, Truist, PNC, Wells Fargo, TD Bank, and Citibank). This exemplifies the clout of the U.S. business community, which often successfully advocates to play a role in the administration of public programs (the health industry is replete with such examples, e.g., Medicare

Advantage and Medicaid). In this case, companies apply to banks for the PPP loans, and in turn earn between 1 to 5 percent of the loan amount as a processing fee. This has created considerable controversy, as the financial industry has generated substantial revenue from its position as an intermediary. Furthermore, there is evidence that the program was unfairly administered; the House Select Subcommittee on the Coronavirus Crisis published several findings in an October investigative report, including (1) that banks prioritized their existing customer base, (2) that the Administration did not issue guidance to lenders to prioritize underserved markets, and (3) that "several lenders processed bigger PPP loans for wealthy customers at more than twice the speed of smaller loans for the neediest small businesses" (House Select Subcommittee on the Coronavirus Crisis, Oct. 2020).

Figure 8: *Key factors of the U.S.'s Pay Check Protection and Germany's "Kurzarbeit"*

	United States Paycheck Protection Program	German "Kurzarbeit" Model
When established	2020	1927
Eligibility	Employers with up to 500 workers (not including restaurant and hotel chains)	All employers; must show demand drop of 10 percent for 10 percent of workers
Basic Design	Forgivable loans	Grants
Application window	Feb. 15 – June 30, (extended to August 8), first come, first serve	Ongoing; if an employer qualifies, the funding is available.
Size of program	Tranche 1 – $349B (CARES 3.0) Tranche 2 – $310B (CARES 3.5)	Available as needed
Length of benefit	Originally 2.5 months, Extended to 24 weeks (6 months of payroll)	12 months, extended to 24 months due to current crisis.
Use of private third parties to administer	Yes	No

SOURCE: Authors' illustration.

Unlike in Germany, where the solidarity principles of the social market economy allow large and successful companies to avail themselves of public funding to keep employees paid, the American public viewed this as unseemly ... Yet, failure to prevent large scale unemployment, especially unemployment originating in small businesses, will likely lead to a loss of entrepreneurial capital with long-term adverse economic and social consequences.

Ultimately, regardless of divergences in design and implementation between the two systems, the fact is that German rates of employment during the crisis have been substantially more stable than those in the United States, in large part because of the Kurzarbeit system. German unemployment inched up from 5.1 percent in March to 5.8 percent a month later; American unemployment in that same time period went from 4.4 percent to 14.7 percent. According to Chetty et al. (2000): "Loans to small businesses as part of the Paycheck Protection Program (PPP) also have had little impact on employment rates at small businesses to date. Employment rates at small firms in the hardest-hit sectors trended similarly to those at larger firms that were likely to be ineligible for PPP loans, and remained far below baseline levels as of May 30." Failure to prevent large scale unemployment, especially unemployment originating in small businesses, will likely lead to a loss of entrepreneurial capital with long-term adverse economic and social consequences.

Health Insurance

Another key differentiator between the German and American pandemic preparedness is rates of stable insurance coverage. Germany, the first country historically to implement health insurance, boasts virtually universal coverage, and is well known for its stable health-insurance landscape. German levels of uninsured can be described as negligible (61,000 out of over 82 million, or 0.07 percent) (Statistisches Bundesamt, 2020). The United States, on the other hand, has struggled over decades to extend health insurance to some 90 percent of the population. The rate has fluctuated over the last 10 years per Gallup National Health and Well Being Index (Witters, 2019), but at any given time since 2014, some 30 million Americans are uninsured.

The causes of this discrepancy can be explained by different path dependencies, i.e. historical events that shaped policies. During the industrial revolution, Germany's immiseration of the working class had more far-reaching political consequences than in the United States. Economically, mass emigration threatened to weaken Germany's labor force. Socially, rising inequality threatened social peace and political stability (Boissoneault, 2017).

Regardless of the historical motivation, it is notable that Germany now has a general requirement to enroll in health coverage ("Versicherungspflicht"), while the United States does not. Whether mandatory health care systems are superior to voluntary ones is ultimately an empirical question. A comparison of Germany and the United States suggests that Germany's mandatory health care system has proven to be more effective than the one of the United States.

The U.S. Congress briefly established a form of mandatory healthcare in the United States through the Patient Protection and Affordable Care Act of 2010 (also known as Obamacare), which became effective on January 1, 2014. A subsequent Republican-controlled Congress repealed this mandate in late 2017, which became effective on January 1, 2019. The American health-care mandate was generally viewed as the least popular aspect of Obamacare (Hamel et al., 2020). Rivlin (2012) distinctly summarizes the Republicans opposition:

> "Republicans viewed the ACA [Affordable Care Act, The Authors] as an example of big government intrusiveness and sometimes call it "socialism," which seems a stretch. The central feature of the ACA is the creation of exchanges to enable the uninsured (armed with subsidies) to choose among private health plans. This is a free market approach quite different from the government-delivered health care usually associated with "socialized medicine." Indeed, it is curious that Republicans castigate exchanges in the ACA and favor them in Medicare, while Democrats take the opposite, equally inconsistent, position."

The United States' health care market is often associated with free markets. Compared to Germany, this is certainly true. Yet, free markets are not necessarily competitive markets. For example, there are health insurance deserts in geographic areas where only one option for private insurance exists. Furthermore, unregulated health care markets are more likely to develop cherry-picking health care plans that promise entrepreneurially greater profits, but not necessarily greater social welfare. Conversely, health care markets that are highly regulated are not anti-competitive, much less socialist. If the idea of competition is to provide goods and services at high quality for as many people as possible at low prices, then one must conclude that Germany's health care market is more competitive than that of the United States. Figure 9 underscores this with a selection public health metrics from 2017.

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In addition to essentially universal health care coverage in Germany, the table shows that health expenditures per capita are 42 percent less in Germany than in the U.S., yet Germany has a three percent higher life expectancy. Moreover, proportionally (per 1,000 people), Germany has 63 percent more physicians than the United States. Germany's government spends (in proportion to GDP and in absolute dollar terms) less on health care than the United States, by at least 10 percent. German citizens still are responsible for some cost sharing – indeed, for a higher proportion than their American counterparts – but because their overall health expenditures are substantially lower, that self-responsibility in absolute terms is also significantly less.

Figure 9:
Public health care metrics for 2017

Factors	Germany	USA	Germany/ USA Ratio
Current health expenditure per capita, PPP (current international $)	5,923	10,246	0.58
Life expectancy at birth, total (years)	81.0	78.5	1.03
Physicians (per 1,000 people)	4.25	2.61	1.63
Domestic general government health expenditure (% of general government expenditure)	19.88	22.55	0.88
Domestic general government health expenditure per capita, PPP (current international $)	4,600	5,139	0.89
Out-of-pocket expenditure (% of current health expenditure)	12.67	10.99	1.15

SOURCE: World Bank Development Indicators Database.

In Germany, being insured means one is a "member" of a health plan in a way that is not tied to employment. Changing jobs, losing a job, retiring, or other life changes do not necessarily cause the loss of health insurance. The United States health-insurance landscape is much more dynamic, with patients "churning" in and out of health plans with great frequency. Even in the best of times, American health insurance is based on one-year contracts, and many Americans reevaluate (and change) their health insurance before the start of a new calendar year. Given the link between health insurance and employment, in more difficult times such as the current economic crisis, many Americans lose their health insurance along with their job.

Of all the health insurance systems in Europe, Germany's arguably resembles that of the United States as closely as any. At bottom, Germany relies on a network of private health insurers ("Krankenkassen" or "sickness funds") that pay for items and services necessary for health treatments, including preventative measures.

The system has grown out of Otto von Bismarck's Health Insurance Act of 1883, ("Krankenversicherungsgesetz"), and is based on the "defining principles of solidarity and self-governance," principles that have "remained at the core of its continuous development" since its inception (Busse et al., 2017). Accordingly, the government "has wide-ranging regulatory power over health care but is not directly involved in care delivery" (Blümel et al., 2020).

On the other hand, it might surprise many Americans to learn that millions of their fellow citizens are enrolled in health insurance that is financed directly by public funds. Although the vast majority of the U.S. health care system is delivered by private actors (hospitals, physician groups, clinics, and so forth), some 150 million Americans have insurance that is financed in whole or in part with taxpayer dollars. 62.7 million elderly and disabled Americans are entitled to Medicare hospital insurance (financed directly by federal payroll taxes) and Medicare outpatient and prescription drug coverage (financed largely by federal tax revenue). Over 70 million Americans living near or below the poverty level are enrolled in Medicaid and the Children's Health Insurance Program (CHIP) (financed by state and federal tax revenue), and another 10 million are enrolled in private health plans subsidized by tax revenue via the Affordable Care Act (Obamacare).

There are other smaller groups (e.g., federal employees, military personnel, veterans) whose health care is also financed by public funds. Indeed, the largest group of insured in America (those with employer-sponsored coverage) also receive their insurance through the largest single federal tax expenditure (i.e., roughly $300 billion in foregone tax revenue annually, U.S. Department of the Treasury, 2020). Employers and employees get tax breaks for their health care coverage; the U.S. government loses revenue and indirectly subsidizes the private health care system. In addition, private health insurers play an ever-greater role in administering public programs (in particular Medicare and Medicaid) through so-called "managed care." For example, an ever-greater share of Medicare beneficiaries (39 percent in 2020, Medicare Payment Advisory Commission, 2020) are enrolled in private health plans that administer the Medicare benefits (known as Medicare Advantage). This private sector veneer generally renders the public payor invisible to the patient, obscuring the governmental role still further. Accordingly, there is no small measure of irony that a system which is still at bottom a laissez-faire system based on freedom of contract, and under which many Americans experience greater health insecurity than those in the German system, is financed in large part by the taxpayer.

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Furthermore, the development of the U.S. health insurance system has been marked by political upheaval. Just as the Affordable Care Act of 2010 (responsible for extending insurance to roughly 20 million Americans) continues to elicit controversy, so too have other American efforts to cover the uninsured in the past been opposed based on an undefined fear of government involvement. President Bill Clinton's efforts to reform American health care in 1993 were targeted this way, as was Medicare during its development in the 1960s (in fact, Ronald Reagan famously served as the spokesperson for the 1961 campaign to paint Medicare as "socialized medicine," three years before he entered national politics). While Clinton's health plan failed in the 90's, Congress did indeed enact Medicare in 1965, which today covers over 60 million aged and disabled individuals, and enjoys overwhelming popular support. One recent survey found that 77 percent of the public view it as "very important" (Norton et al., 2015). Despite this popularity, the strain within American culture that produced opposition to Medicare in the 1960s persists today, creating confusion and casting uncertainty on the durability of some public benefits.

Nowhere is this opposition more pronounced than with the Affordable Care Act, which ten years after its enactment, still remains under legal attack in the courts today. The Supreme Court ruled on the first large-scale challenge to the health law in 2012, ultimately upholding the ACA expansion of private insurance, but weakening the expansion of Medicaid, making it optional to each individual state whether to expand eligibility. The Court's ruling on Medicaid expansion goes to the heart of the American constitutional order – the idea being that the national government (Congress) lacks the power to "coerce" states to expand their public-assistance programs – even if Congress provides almost all of the funding. This weakening of the health law has meant that some 4.4 million Americans in 12 states (including Texas and Florida, two of the most populous) are currently not eligible for Medicaid, despite Congress's intent that they would be (Garfield et al., 2020).

The ACA survived a second existential challenge in the Supreme Court in 2015, but sustained another significant blow in 2017, as Congress repealed the mandate to obtain health coverage (described above). As of the time of publication, the Court is poised to rule once again on the constitutionality of the entire health law, in early 2021. The challenge has been brought by the state of Texas and is supported by the Trump Administration. At issue is not only the constitutionality of the now-neutered individual mandate but more critically, whether striking that provision down should lead to the repeal of the entire law – an outcome that would destabilize the U.S. health system during a global pandemic, adding some 20 million additional Americans to the uninsured, and repealing the protection for patients with pre-existing conditions. The uncertainty surrounding this result – as well as the lack of public appreciation for the integral role of taxpayer funding in health programs that predate the ACA (a solidarity element perhaps unknown to most Americans) – is a reflection of the division and misunderstanding that underlies American politics, and which ultimately renders social problems that much more challenging to solve.

The Covid crisis is exposing one of the principal weaknesses of the U.S. system of health insurance coverage: the inextricable link between health insurance and employment. In fact, the "large majority of non-elderly U.S. households (159 million Americans) rely on Employer-Sponsored Insurance (ESI) to pay for health care" (Bivens et al., 2020). This connection is a historical accident that dates back to the Second World War when wage controls incentivized employers to offer additional forms of compensation in order to attract workers (who were in short supply due to the war efforts). Congress has since provided that such expenses can be classified as a deductible expense, further entrenching the benefit into law as the largest single tax expenditure.

At the time of publication (late 2020), there are few reliable data sources about the impact of the pandemic on ESI coverage in the United States. The U.S. Census Bureau's annual publication of health insurance coverage, for example, is generally published in the fall of the following year (see Keisler-Starkey et al., 2020). Several preliminary estimates, however, have become available. According to the Economic Policy Institute (Bivens et al., 2020), at least 3.2 million Americans lost their ESI during the period of March-April of 2020. The advocacy organization Families USA (Dorn, 2020) estimates that of the 21.9 million American workers who lost their jobs or left the labor force between February and May, 5.4 million of them became uninsured as a result. The Commonwealth Fund (Fronstin et al., 2020) published a study in October estimating that some 7.7 million American workers (as well as 6.9 million dependents) had lost their ESI coverage by June. Regardless of the exact size, it is clear that the loss of ESI coverage during the Covid crisis will be historically large and will test the U.S. safety net like never before.

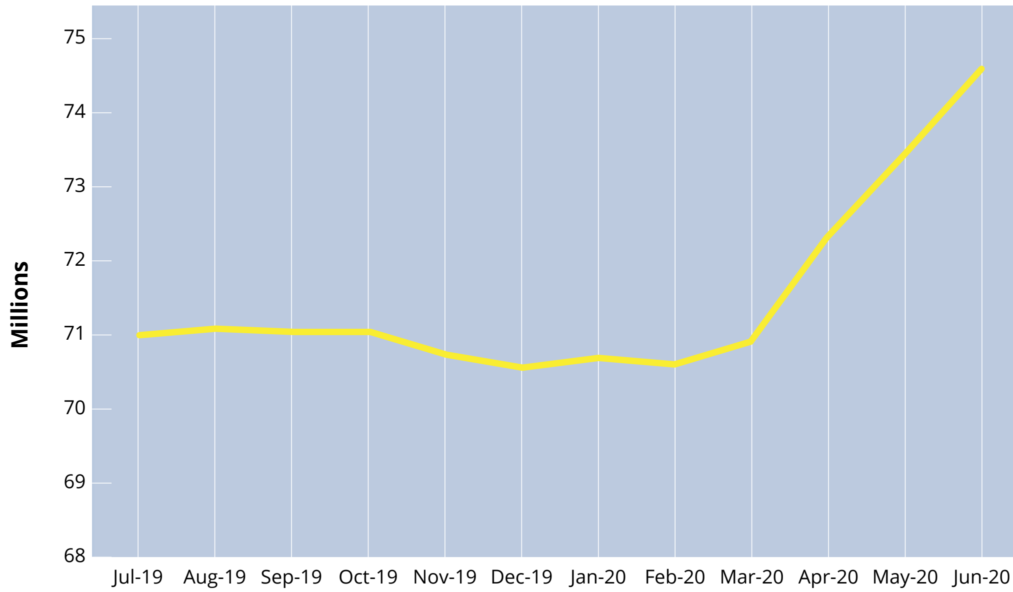
Under a federal law providing for continuation of insurance coverage (COBRA), workers who lose their job can remain in their ESI for up to 18 months, but must pay the full cost of the monthly premium – which is often prohibitively expensive, particularly during economic hardships. Hence, the most straightforward way to prevent large-scale disruption in the health insurance landscape during a recessionary period would be for the government to subsidize the COBRA premium. Like Kurzarbeit, COBRA full payment coverage would arguably be the most straightforward way to allow Americans to maintain health security and continuity during severe economic downturns. Under the German system, choice of health insurance is disconnected from the employment relationship, and is not disrupted in the event of unemployment; in fact, premiums for health insurance are paid automatically under the German unemployment system. Congress enacted such protections during the financial crisis (in the American Recovery and Reinvestment Act of 2009), by providing, on a temporary basis, a 65 percent COBRA subsidy. Congress, however, up to now has failed to deliver similar relief during the current crisis. As part of the process to enact a second large-scale rescue package, the House of Representatives in May passed the HEROES Act (H.R. 6800, 116th Congress), which would have provided a 100 percent COBRA premium subsidy lasting through January 2021. As of the time of publication, however, Congress is not expected to enact this or any similar provision.

Lacking the means to extend their ESI through COBRA, most Americans, in order to replace their coverage, must fall back on the safety-net programs, including the ACA's coverage expansion. The two principal tools in this regard are the expansion of Medicaid eligibility and subsidized marketplace coverage – which together (pre-pandemic) have accounted for the roughly 20 million "newly insured" since 2014 under the ACA. While these safety-net options are certainly positive, the "churn" of patchwork coverage can harm predictability and the continuity of care, as doctors and providers are not required to accept all health insurance plans (unlike the German system). This phenomenon is "associated with disruptions in physician care and medication adherence, increased emergency department use, and worsening self-reported quality of care and health status" (Sommers et al., 2016).

Many of the newly unemployed (and their dependents) are replacing their health coverage by enrolling in Medicaid – a program operated by states and financed jointly by the states and the federal government. Congress established Medicaid in 1965 as an anti-poverty program of medical assistance, offering states matching federal funds and the option to establish a program. By 1982, all 50 states and the District of Columbia had established Medicaid programs. Congress established the Children's Health Insurance Program (CHIP) in 1996, for uninsured children in low-income families. CHIP is also administered by the states and often bundled with Medicaid in terms of its administration. Congress then expanded Medicaid eligibility still further in 2010 through the Affordable Care Act. Thus, the story of Medicaid and CHIP is the story of incremental expansion, and even before the Covid-19 pandemic, it had already become the largest health insurance system in the country with some 70 million enrollees.

As the graph below demonstrates, a spike in Medicaid enrollment in the first half of 2020 reflects its ability to absorb millions of Americans who have lost their ESI through unemployment. In this case, total national Medicaid and CHIP enrollment grew by some 3.6 million individuals during the 3-month period ending in June 2020, and is on a trajectory for continued growth through the pandemic (Centers for Medicare & Medicaid Services, 2020). According to an analysis by Mann et al. (2020), more recent data made available among some 40 states confirms that Medicaid enrollment growth through August 2020 has "substantially outpaced recent, pre-Covid-19 rates of growth in the program, particularly amongst non-elderly, non-disabled adults [i.e., the demographic of working people]."

Figure 10: *Combined Medicaid and CHIP enrollment*



SOURCE: Replicated from Centers for Medicare & Medicaid Services (2020) data.

Congress in March 2020 also provided some additional protections for Medicaid (in the Families First Coronavirus Response Act), through a rule that prohibits states from disenrolling Medicaid enrollees during the course of the public health emergency (a practice that some states have engaged in aggressively in order to decrease their financial burdens).

Federal Moratoria on Eviction

On top of job and health insecurity, the Covid-19 economic fallout has presented America's laissez-faire economy with another major risk: mass evictions. As with the previous two examples, the American approach to solving this problem (temporary moratoria on evictions for non-payment of rent), while appropriate for a brief emergency, is not correctly tailored to the magnitude of the problem. Instead of stringing together 90 day and 120 day freezes on evictions, policymakers should instead use rental assistance to help renters stay in their housing during periods of economic insecurity. Like Kurzarbeit, and like COBRA subsidies, this would allow renters to stay in their homes, and also ensure that property owners are able to continue covering their own costs.

On top of job and health insecurity, the Covid-19 economic fallout has presented America's laissez-faire economy with another major risk: mass evictions.

During the spring and summer of 2020, a number of governors and local officials in the United States used their emergency powers to implement various temporary eviction moratoria and rent freezes (McCarty, 2020). In addition to this patchwork of state efforts, Congress and now the Trump Administration have intervened in an unprecedented way to try to prevent a massive cascade of evictions across the United States resulting from the Covid-19 economic shock.

In the CARES Act, Congress authorized a 120 day moratorium on evictions (on a fairly narrow set of renters, i.e., those participating in a federal assistance program or subject to a federally backed mortgage loan). This provision expired on July 24, 2020. Since the enactment of the CARES Act in March, the House of Representatives has passed two large-scale Covid-19 relief packages – The HEROES Act (in May) and the Updated HEROES Act (in October). Both bills contain a one-year moratorium on evictions on substantially all housing, effective on the date of enactment. As explained above, those measures remain unenacted.

Meanwhile, as the economic wreckage continued throughout the summer, a report from the Aspen Institute published in August (Benfer et al., 2020) estimated that without intervention, as many as 30-40 million Americans were at risk of eviction. On September 1, 2020, the Trump Administration issued a national moratorium on evictions based on non-payment of rent. In an unprecedented move, the Administration did this on public-health grounds, through an order of the U.S. Centers for Disease Control and Prevention (CDC). The order is effective from September 4 through December 31, 2020. The express rationale of the moratorium is as a "public health measure utilized to prevent the spread of communicable disease." The order provides that it is "a temporary eviction moratorium to prevent the further spread of Covid-19." Importantly, the order does not relieve an individual of any obligation to pay rent or make a housing payment. The order also does not prevent landlords from attempting to evict tenants, who must still appear in court and defend themselves based on the CDC order. Even tenants who appear in court may still be evicted if they are unaware of the order and fail to raise it as a defense.

Ultimately, the CDC order, while helpful, is a stop-gap solution that merely punts a likely eviction crisis into January 2021 (Bahney, 2020). Only Congress can provide the necessary relief in the form of rental assistance. In addition to one-year protections against eviction, the HEROES Act contains $100 billion in rental assistance (and the Updated HEROES Act contains $50 billion in rental assistance). Many observers believed that Congress would enact a second relief package during the summer of 2020, but political dysfunction has continued to prevent such a package from materializing.

It is noteworthy that Germany also responded to the specter of housing insecurity with a 90 day moratorium ("Kündigungsschutz für Mieter"), which ran from April 1, 2020 through June 30, 2020. However, it was not extended – in fact, according to the German Ministry of Justice, landlords and tenants "in very many cases could settle any dispute privately" (Justizministerium, 2. Nov. 2020). While tenants who failed to make rental payments during this 90 day window have until mid-2022 to make those payments

("Zahlungsaufschub"), there has been no other major reform targeted specifically to protect tenants from housing insecurity, and thus far, no evidence of an impending wave of evictions. Large residential property companies in Germany (e.g. Vonovia SE, LEG Immobilien, and TAG) continue to show positive financial results, and have not reported about any eviction worries in their quarterly earnings statements (Leitel 2020). Deutsche Wohnen SE (the largest landlord in Berlin) has even promised that "no tenant will lose their flat as a result of the coronavirus pandemic," and has established a sizable coronavirus support fund to help cover any rent shortfalls (Press Release dated Nov. 13, 2020).

The fact remains that Germany – consistent with the social market economy and the element of solidarity – is structurally better prepared than the United States to prevent any housing-related impacts from the Covid-19 crisis. First, Germany already has a more tenant-oriented housing market, with only about 45 percent of the population owning their own homes – the second-lowest share of homeowners among the OECD countries (Kaas et al. 2020). In contrast, homeowners make up over 65 percent of the U.S. population – a figure that has dropped from a peak of 68.9 percent in 2005, shortly before the financial crisis of 2008-2009 (Keightley 2020). Accordingly, a German tenant has more political clout and is entitled to a range of protections that his American counterpart is not (e.g. unlimited rental contracts, rent controls, etc.).

The fact remains that Germany – consistent with the social market economy and the element of solidarity – is structurally better prepared than the United States to prevent any housing-related impacts from the Covid-19 crisis.

Ultimately, however, independently of renter protections, German tenants are more likely to be able to manage the root cause of evictions, i.e., non-payment of rent. This is not because Germans are on average wealthier than Americans; in fact, median wealth is actually lower in Germany than in the United States (in 2019, $52,777 per German adult vs. $69,117 per American adult, according to Shorrocks et al. (2020)). As discussed above, the social market economy effectively delivers a degree of job and health security that a laissez-faire system can provide only through more spontaneous interventions, if at all.

Conclusions

The Covid-19 pandemic has laid bare fundamental policy differences between the United States and Germany in terms of pandemic readiness and response capability. Germany's response has been principally science-based, and marked by early interventions including both the development and deployment of mass testing. The American response has been far more uneven, resulting in a significantly higher mortality rate, despite substantial wealth and scientific know-how.

Our principal argument has been that Germany's pandemic response is an expression of the philosophy of a social market economy, while the American response is a closer representation of laissez-faire capitalism. The distinctions between these philosophies have elicited some measure of confusion both in the United States and Europe – exemplified in particular by the oft-repeated and mistaken refrain among some American politicians that Germany and other advanced European countries employ "socialist" economic and health-care systems (referring here to countries like the Soviet Union and Cuba).

As we have outlined above, social market economics is deeply rooted in market economics – not Soviet-style socialism. Therefore, just like laissez-faire thinkers, social market economists reject central planning, the nationalization of the means of production, and the idea of equal consumption justice. Also, again in accordance with laissez-faire thought, social market economists advocate a market system that rests on equal opportunity. The main difference between a social market economy and laissez-faire pivots around the nature of equal opportunity. Is equal opportunity a natural state of the free market, or not? For laissez-faire capitalists, it is. For social market economists, it is not.

For social market economists, the state should prevent market failures that contribute to unequal economic opportunity. An unregulated health-insurance market, for example, tends to discriminate against those with pre-existing health conditions, particularly those with one or more chronic illnesses. For social market economists, correcting for this discrimination is a normative responsibility rooted in the human desire for solidarity (which co-exists along with self-interest and self-responsibility).

The American health-insurance system is less regulated and more fragmented, and for most non-elderly Americans, closely connected to the employment relationship. As we have discussed, the Covid-19 crisis in the United States is leading not only to historic disruptions in employment, but also in health insurance, as millions of Americans have lost their job-connected coverage and (in some cases) switched into Medicaid. These disruptions are associated with lack of continuous care, less testing, and less diagnosis and treatment of Covid-19 and related illnesses. These shocks come in addition to an already weak public-health infrastructure at the state and local level.

We have argued that Germany's health care marketplace, as an expression of the social market economic philosophy, is more competitive than the American system – based on the measures of access, cost, and health outcomes. Perhaps counterintuitively to some American readers, we argue that the German approach to health insurance – while more heavily regulated than the American approach – fosters greater competition among the health insurers, and thus provides greater economic value to the end users (the patients).

The social market economic spirit underlies Germany's system of employment protection as well. Germany's short-time work model ("Kurzarbeit") has kept unemployment rates far below American unemployment. While the macroeconomic fallout of the pandemic in Germany and the United States are comparable, for every percentage point in decline of GDP, Germany loses roughly 0.22 percentage points in total employment; the United States around 1.76 percentage points (about eight times more).

The fact that Germans retain employment much more than their counterparts in the United States also contributes to more effective containment of the pandemic. Workers with job security are more likely to abide by quarantine mandates and other public-health rules. In addition, the short-time work model also prevents companies from shutting down and economies from losing their historically grown productive networks between employers and employees. Germany's short-term work model is an investment not only in social safety and public health, but in maintaining the country's competitiveness.

A final pillar of social safety is eviction avoidance. An eviction crisis is potentially another looming link in the pandemic-induced chain of events: in the United States, job losses will cause disruptions in health insurance, and later, in housing. Each of these events makes the containment of the virus more difficult and accelerates epidemiological dynamics. It is telling in particular that it was the U.S. Centers for Disease Control and Prevention (rather than an agency responsible for housing) that issued the first-of-its-kind national moratorium on eviction, based on public-health grounds. If that moratorium is allowed to expire at the end of 2020, it is expected to precipitate a major eviction crisis in the United States.

In Germany, a similar three-month moratorium on evictions was allowed to expire in July 2020, and no eviction crisis followed. Germany's short-time work model has allowed most vulnerable families and companies to pay their rents, and in many cases tenants and landlords have found cooperative private agreements.

In conclusion: a comparison of German and American responses to the pandemic offers a helpful illustration of the social market economy in action, as compared to a laissez-faire approach. The stress test of a novel and highly contagious coronavirus has shown that Germany's existing infrastructure and public-policy tools – rooted in the social market economic approach and developed over many decades – offer powerful examples for the United States and other countries and systems to emulate. The transatlantic dialogue – so often focused on national security, common defense, and trade – should be expanded to include more productive dialogue on using the tools of social policy and social market economics in order to manage this pandemic, and to prepare for the next one.

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Authors

Andrew Adair is an American lawyer and founder of DC / Berlin Consulting, which supports the transatlantic activities of German companies, trade associations, and foundations through customized public-policy analysis, speeches and lectures for conferences and boardrooms, and the production of delegation trips, events and conferences. Andrew's bilingual newsletter "The Week in Washington" has a readership of over 3,000 leaders in government and business. Before starting DC / Berlin Consulting in 2018, Andrew spent over 15 years in Washington, holding various positions including as counsel to U.S. Rep. Jim McDermott (D-WA), a member of the House Ways and Means Committee, and as Congressional advocate for a major national advocacy organization. Andrew practiced law from 2005 to 2011, and has taught as an adjunct professor at the George Mason University. Andrew received his law degree (Juris Doctor) from the George Washington University Law School, and his Bachelor's Degree from the University of North Carolina-Chapel Hill.

Marcus Marktanner is Professor of Economics and International Conflict Management at Kennesaw State University (KSU). He received his PhD from the Technical University of Ilmenau, Germany in 1997. Before joining KSU in 2011, he held academic positions in Lebanon, the USA, and Germany. His research focuses on comparative economics, economic development, and conflict economics. He has consulted various UN organizations and regularly contributes to the work of the Konrad Adenauer Foundation as an author and speaker on the topic of the social market economy.

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