

# The European Politics of Covid-19

*Did markets or the state fail?*

BY OTMAR ISSING

THE INTERNATIONAL ECONOMY  
THE MAGAZINE OF INTERNATIONAL ECONOMIC POLICY  
2201 Street, N.E., Suite 200  
Washington, D.C. 20002  
202-861-0791  
www.international-economy.com  
editor@international-economy.com

For those on the left of the political spectrum, the pandemic has delivered the proof: the market has failed. When the pandemic began, there were not nearly enough face masks available; now sufficient supplies of vaccine have not been secured in time.

This position turns the issue upside down in an almost grotesque manner. Being prepared for the eventuality of a pandemic, something the World Health Organization had warned about for a long time, is clearly the responsibility of the state. However, there was scarcely time to lament a shortage of masks before the markets responded to the new situation with incredible speed. Numerous companies converted their production capacities. Instead of shirts or other clothing, they manufactured masks. A large number of individual producers also played their part in boosting the supply of face coverings.

The development of a vaccine to combat the new virus must go down as one of the most impressive demonstrations of the market's capabilities. Who would have thought that this feat could be achieved so quickly? How was it possible? The story of the two researchers at the helm of the German company BioNTech can serve as a prime example. In an interview, the couple explained how, one morning over breakfast at the start of the pandemic, they came up with the idea of immediately shifting their research, which had been geared towards fighting cancer, to the hunt for a coronavirus vaccine. Companies around the world reacted in a similar way to the outbreak of the pandemic. The starting gun had sounded for a global race to find a cure for this disease that threatens all humanity.

What more striking proof could one find for Nobel laureate F.A. Hayek's thesis of the market as a discovery process? In order to participate in this competition to find a vaccine, massive capital investments were required. The risk of failure was huge. Large losses would loom in the event of failure; the capital invested would be lost. It takes entrepreneurial courage to weigh the risk against the chance of success. This is precisely what happens in a dynamic market economy.

Yet no sooner has the market economy proven its efficiency, than calls can already be heard for the new vaccine to be declared a "public good." The vaccine is not a commodity like any other, these voices argue, and should not be protected by patents for the sake of private interests. Is it not downright indecent, in their eyes, to seek to earn money with a product of

such great importance for the whole of humanity? Principles of justice and solidarity also demand that the vaccine be made available to poor countries worldwide. This demand merits respect, but if it does not happen, it will be a failure on the part of the international state community, which has the duty to fulfil this public task.

To accuse the market of failing in this regard reveals an ideological bias, or at least a lack of understanding of economic processes. The ethical reservation about the market rests on shaky foundations. Without the efficiency of the market-based discovery process, the vaccine would not exist at all, or at least not yet and not in the huge quantities already produced, in spite of all the criticism. The availability of a certain good cannot be separated from the privately organized innovation process that preceded it. This is not to disguise the fact that states have reduced—though not eliminated—the private-sector risk with purchase guarantees. It is also true that publicly funded basic research plays a vital role in enabling the focused private initiative. Yet this is precisely the task of the state—in this field among many others.

Arguments presented from an ethical high horse must be countered with this statement by Joseph Ratzinger (while he was still a cardinal): "A morality that believes itself able to dispense with the technical knowledge of economic laws is not morality but moralism. As such it is the antithesis of morality."

One more word on the supposedly superior role of the state. While the great logistical challenges of distributing the vaccine should not be underestimated, the at times grotesque blunders of public administration in numerous countries and at EU level do little to support the claim that states are capable of acting with greater efficiency.

Regardless of the overwhelming evidence to the contrary, the thesis of market failure in the pandemic will surely continue to be circulated by its proponents and find numerous supporters, not least in the media. Once a product as important as the vaccine has been made available through the efforts of private companies, the call for this achievement to be socialized smacks of populism. If politicians give in to this temptation, they will destroy or at least weaken the incentives for innovation of all kinds. Society will end up paying the price through lower future prosperity. ♦

*Otmar Issing is President of the Center for Financial Studies, Goethe University Frankfurt, and founding Member of the Executive Board, European Central Bank.*