

The Iran war and no end in sight



**Prof. Dr. Dr. h.c.
Lars P. Feld**

teaches at the University of Freiburg and heads the Walter Eucken Institute

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Despite the temporary ceasefire, the Iran war is not over yet. It raises speculations about the economic impact of this war, none of which are particularly positive. However, the assessments made at the start of the war remain valid in principle.

The ten percent increase in the oil price also increases inflation in the West by about 0.4 percentage points in the first round - with second-round effects in subsequent years. When oil prices increase by USD 10 per barrel, economic growth is reduced by 0.1 percentage points. As a result, the forecast for the EU in the present year only expects that real GDP will grow by 0.6 percent, which is about half of the fall forecast. The German inflation rate could increase to 2.8 percent. This would represent an increase of 0.7 percentage points using a comparison of both forecasts.

There is considerable uncertainty with regard to the other effects beyond the price for energy. Fertilizer supplies are massively impacted by the closure of the Straits of Hormuz. As a result, food prices could increase noticeably, not just because the production of food is energy-intensive, but also due to reduced harvests. While Western industrial nations are not as dependent on primary energy sources as was the case during the two previous oil price shocks, the same cannot be said for the less developed countries. However, adverse effects on production in those countries would become noticeable in the form of disrupted supply chains in all other economies. It is difficult to assess these consequences, notwithstanding the ex-

perience gained from the COVID-19 crisis. Still: As was the case at the beginning of the pandemic, there is no need for apocalyptic statements. The Iran war creates an enormous supply shock that the global economy has to learn to manage. Therefore this is not the time to implement economic and financial policies targeting macroeconomic demand. Rather, the key is to strengthen the supply side. Since Germany has long faced structural problems on the supply side, the federal government must intensify its reform efforts,

such as doing everything to avoid setting the wrong course. For the most part, the price effects in energy markets should be left to work their way through the system, as savings need to happen as a result of the shortages. If they are not induced by price incentives, there is also rationing. Therefore price caps or temporarily lowering the environmentally justified energy taxes (previously: mineral oil taxes), for example by way of a fuel discount, are not a good idea. The same applies to other price regulations, such as those for train tickets. Solely a permanent decrease in the electricity tax for all would be justified as a fiscal measure. It would in any case have to be lowered to the European minimum, in accordance with the coalition agreement. Because otherwise it creates a negative impact on electricity from any other energy source, including renewable energy. Therefore the electricity tax no longer has any justification for environmental reasons. It is mutating into a bureaucratic monster, since it has only been decreased for the manufacturing sector. These companies have to report electricity consumption for production and services separately. Welcome to the country that is reducing its red tape!

An excess profit tax is a contraindication in this context. Distinguishing between the „excess“ and „normal“ profits creates another bureaucratic monster. In principle, such profits only occur when a company has a market-dominating position; however, antitrust legislation has it right when it ties such an assessment to market share or similar, and not to the amount of the profit that is generated. The federal government has already responded in this area. No more needs to be done. An excess profit tax would only create more problems for companies in a situation where any tax increase would be akin to poison.

The situation is similar with regard to the value-added tax. In expectation of potential price increases for food, some want to lower the value-added tax for such items to zero percent. The potential increase in the regular rate by two to three percentage points, which has been discussed for different reasons, seems to create the ground for such a scenario. Both should be disregarded, not least because the different value-added tax rates would create a situation in which the tax would be shifted to the companies.

The soccer metaphor used by Olaf Scholz „You'll never walk alone“ is also wrong; Taylor Swift's motto is more accurate in this regard: „You are on your own, kid“.

A handwritten signature in black ink, appearing to be 'Lars P. Feld'.

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