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Germany's "double ka-boom" on energy is open to criticism, but appropriate

Europe has reacted skeptically to the German government's multi-billion euro package to combat the energy price crisis. However, the so-called "double ka-boom" provides the right incentives to save energy

The German government's program to provide up to 200 billion euros in subsidies to households and enterprises to deal with the energy price crisis, described as a "double ka-boom", has caused an uproar throughout Europe. Germany was (and still is) accused of two things: first, the excessive size of the package, which would result in inappropriate state aid for Germany compared with other countries in the European single market; and second, the fact that the German government acted alone rather than in concerted action with other European countries.

Since the German government adopted the proposals of an energy expert commission, we know how Germany intends to proceed, where before (during the initial reaction in other European countries), there was only conjecture.

The commission set up by the German government (consisting of 21 experts, including economists, trade unionists, and entrepreneurs, generally with pro-European and pro-climate tendencies) represented a contrast to the procedure in other EU countries. Only in Germany has it been left to experts to draw up plans on how the government can best help families and businesses cope with high energy prices without losing incentives to save energy. In most EU countries, the government has decided for itself and has been the target of enormous political pressure.

This is perhaps also the reason why the measures now adopted by the German government have little to do with the accusations from abroad. This applies in particular to the concerns that were raised in Italy.

The COVID-19 pandemic rescue package as an example

First, 200 billion euros is not as much as it might seem. The German government under Chancellor Olaf Scholz has named a high amount, more to reassure the public that the government is serious than to name a fixed sum that is budgeted that way.

A similar scenario played out in the spring of 2020 at the beginning of the COVID-19 pandemic: the German government announced a gigantic aid package totaling around one trillion euros. However, this was the upper limit for possible loans and guarantees. In the end, a fraction of the funds provided were used, and in 2020 and 2021, according to the figures of the European Commission, Germany spent much less to support the economy than countries like Italy or France (about half in relation to their respective gross domestic product). This could now be repeated.

Of course, the economy and citizens in Germany should be helped to cope with exorbitant gas prices; all governments are trying to meet this need. At the same time, however, incentives should be created to consume less energy, because gas is currently in extremely short supply.

Two-tier system maintains incentives to save energy

To address this trade-off, the commission has proposed subsidizing only a base amount, equal to 80 percent of past consumption. Any kilowatt-hour above this amount must be paid for at the market price. The one-time payment in the amount of a monthly budget bill at the beginning of winter also leaves the incentive to save unchanged. A similar two-tier system is intended for industry. Only 70 percent of past consumption is subsidized.

One can imagine even better systems to help consumers and industry; but this two-tier system maintains the incentives to save energy. This is not the case in many other countries, where prices are usually reduced without a cap on consumption. A general gas price brake, as advocated by some countries led by Italy, would lead to increased consumption. The hope that households will reduce their consumption in spite of everything seems deceptive. Government appeals alone, as in France, have had little effect so far. Without incentives to save energy, however, the EU will not achieve its goal of 15 percent less consumption this winter (and next winter; without Russian gas would be problematic again).

The question arises: Is it fair to put a monetary incentive on a necessary good that should be guaranteed for all, such as the energy that heats homes and warms food, even more so when cold weather sets in and winter is just around the corner? On reflection, it seems that some incentive to save makes sense. In Spain, where the use of gas to generate electricity is subsidized by the state, gas consumption has risen, while in Germany it has fallen by around 15 to 20 percent. In Italy, consumption has barely changed so far. The outgoing government has shortened the heating period in multi-family dwellings by two weeks for the winter of 22/23. But that's not enough. The new Italian government under Giorgia Meloni must take further measures to reduce energy consumption if Italy, too, wants to help solve the problem.

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