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Life is not cheap, capitalism is expensive

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Corona, if one can put it like this, came just in time. Desperate attempts to clear the mountain of public debt accumulated over three or four decades, a good part of it since the euro and the 2008 financial crisis, had been in vain (except in Germany, the prosperity pole of the Euro-zone). Meanwhile the costs of capitalism kept increasing while capital became coy about con-tributing to them, stubbornly claiming its right to a free ride to the next tax paradise. Infra-structures were falling apart, environmental repairs had to be postponed *ad calendas Graecas*, the eurolosers (Italy!) were demanding compensation or else, and “populist” electorates had the nerve to insist on what they thought were their rights, for example to secure employment and the pensions for which they had moderated their wage claims in better times. “Black ze-ro” and the primary surplus, the holy grail of austerity public finance, had long become a seri-ous nuisance. The problem was how to get rid of them, so that the most urgent bills could be paid through more borrowing from the well-to-do beneficiaries of tax reform, once more solv-ing one problem by exacerbating another. Then came Corona, and lo and behold, suddenly there was money, money, money – another lease on life for the debt state.

A little exercise in numerology. One billion is one thousand (1,000) million. One tril-lion is 1,000 billion, or one thousand times one thousand million. The regular EU budget for the seven years from 2021 to 2027 is to be around 1.1 trillion euros, which is roughly 157 billion per annum, which is a little more than one percent of member countries’ aggregate GDP. On top of this the EU is asking for a special post-Corona reconstruction budget of 750 billion euros, to be spent in 2021 and 2022. (For comparison, the Spanish GDP was 1,245 billion euros in 2019.) Funding is to be by debt although the EU is not permitted by the Trea-ties to borrow. Debt is to be long-term and repayment is to begin only in 2028, with the next regular budget period. By then the EU hopes to be allowed to collect its own taxes; if not it will have to service the debt out of its regular budget (which would presumably have to be increased for the purpose). Two thirds of the 750 billion will be disbursed as grants, the rest as loans. All member states will get something, regardless of how hard Corona hit them and how much they spend on their national recovery plans.

Country allotments are specified almost to the last digit, apparently according to a complex formula that is not easy to come by in a short time. France is to get 38.8 billion euros and Germany 28.8, both as grants (Germany is spending 132 billion on two national recovery packages and is borrowing a total of 219 billion in 2020). Italy will receive the lion‘s share, with 172.7 billion, 81.8 of which as transfers; Spain follows with 140.4 (77.3) billion. Interestingly Poland, with very low COVID incidence, is third, with 63.8 (37.7) billion. Note, however, that none of this is cast in stone, and the whole project may well end up as another case in the EU's endless succession of empty promises. For example, it appears that to set up the 750 billion EU fund, all national parliaments without exception must agree. Moreover, Germany and France have expressed doubt that 750 billion is really needed, or politically possible, and suggest some scaling back, closer to the 500 billion they had jointly suggested. And while some countries are opposed to anything being given as a grant, others, especially the Eastern Europeans, fear that their subsidies may be cut in favor of Corona countries. All of this will have to be worked out in the second half of the year, when Germany happens to hold the Presidency of the EU. Remember that the EU doesn't just have four presidents, of the Council, the Commission, the Central Bank and the Parliament, but also a general Presidency that rotates among member countries every half year. This fall it happens to be Germany's turn. So Angela Merkel, in the last winter of her Chancellorship, will have to put together a compromise, both between countries and between the EU and its Treaty base.

Not just the politics are far from clear. What exactly does "reconstruction" mean? The term suggests an image of bombed cities in rubble, as after World War II. But unlike the bomber fleets of the past, Corona spared the hardware. So to justify its fiscal big bang, the Commission defines reconstruction to include long-standing and long-stagnant projects like "digitization" and climate protection, among them von der Leyen's "Green Deal" (not called "Green *New* Deal" for a reason). Even so, the Commission apparently feels that Corona is not sufficient as a rationale for a project of this dimension and had its PR department invent a new name for it, which is "Next Generation EU". Now the new money can be used to stock up old budgets, for example for structural and rural development. 9.4 of the 750 billion, a little more than one percent, is set aside to prepare national health care systems for the next virus.

How will countries be allocated their preset share in the 750 billion bonanza? According to the Commission money won't flow before January 2021, and then only for specific projects approved one-by-one by the Commission and expected to be finished or at least to be on track by the end of 2022. Little time for a lot of cash. It is an intriguing question how national economies like Italy and Spain will respond to the demand shock that an influx of purchasing power of this magnitude might cause. Is there enough supply to absorb it? How to prevent the additional spending getting lost in inflation? And what happens if the Commission wants projects changed before approving them, or if a country doesn't manage to hand in acceptable applications for the money allocated to it? And how will the Commission be able to review applications for up to three quarters of a trillion euros in such a short time and monitor their implementation? For example, how will it ensure that the new European money will really be spent additionally rather than just take the place of old national money being diverted to tax cuts or a lower pension age? What appears to be needed here is a central planning bureaucracy much more powerful on the ground than was Gosplan in the now defunct USSR.

Moreover, funding that is conditional, as payer countries are likely to insist upon, may be felt to interfere with receiving countries' national sovereignty. A few weeks ago the Italian Prime Minister angrily rejected 39 billion euros in Corona emergency assistance from the European Stability Mechanism (ESM) because there would be "reform" conditions attached.

Then, in early June, Commission President von der Leyen told an Italian conference, in Conte's presence, that with the new fund „we at the EU are for the first time borrowing money from our children", and added: „Unlike some of our member states we are not going to (do this) only in order to spend more today." Among other things she urged Italy to cut employment in state bureaucracies and take measures against the influence of the mafia on the public sector. In his answer Conte promised „the comprehensive reforms that have been missing for many years". The money from the EU, he said, gave Italy the financial means necessary for this: „We must not miss this opportunity". It will be interesting to see what happens if the Commission, by funding or not funding Italian applications to the post-Corona "reconstruction" fund, tried to dictate to Italy the very "reform" agenda over which successive Italian governments have fallen since 2008.

Of course suspicion can easily arise, and inevitably will among connoisseurs of EU politics, that conditionality is only a façade needed to assuage Northern publics and, perhaps, governments, and that neither vetting nor monitoring are seriously intended, there being no administrative capacity for them anyway. No central planning, instead an old-fashioned political deal, helped forward by the moral pressure of Corona: keeping the euro alive by buying support for it from euroloser governments while extending the powers and the fiscal reach of the European bureaucracy. However that may be, the extra money will be a boon for "pro-European" governments fighting "anti-European" national sentiment. In this sense "Next Generation EU" would be simply another exercise in buying time. (Italians will remember that as an Italexit became more popular in their country, suddenly money was discovered where nobody expected it.) For how long this will work, however, nobody knows. Not long if demands for "structural reform" in return for the money became more than words. Also, by the time the money will be spent, people will notice that a one-time injection of cash from above, however much, cannot heal the institutional deficiencies of a one-money-fits-all union among economically highly diverse democratic countries. Then at the latest demands will arise for cash transfers to be put on a regular basis. At this point, Corona no longer assisting, an old German wisdom is likely to apply: “Beim Geld hört die Freundschaft auf”, roughly translated as “Friendship and money are like oil and water”, or "Lend your money and lose a friend".