

Will it Be Enough?

WOLFGANG STREECK

03 SEPTEMBER 2021 — POLITICS

It's summer, Brussels pretends to be on vacation, but nobody believes it: clouds are gathering, no silver lining in sight, nerves wrecked all around. Forests are burning, rain is falling, rivers are flooding – the climate crisis has hit home, more undeniably than ever. Of the €750 billion Corona 'recovery fund', not a single euro has yet been spent and the fourth wave is beginning to unfurl. Time for a fiscal booster shot – but how to pay for it? The French war in Africa drags on, the failed states of Libya, Syria, Iraq and Lebanon continue to fail, German demands for a European asylum regime that protects Germany from having to live up to its moral rhetoric are as divisive as ever, regime change in Russia must wait since Putin won't resign. And now Afghanistan: Good Uncle Joe has become Bad Uncle Joe, toute l'Europe being shocked: unilateralism! In Germany and the UK, governments are desperately trying to avoid explaining why, apart from following American orders, they have been fighting a senseless war for two decades in an ungovernable faraway country. And in the midst of disaster everywhere Angela Merkel, the European Union's unappointed but all the more effective Super-President, who they say has somehow kept it all together, is to leave her office as German chancellor this coming autumn, forever.

Will 'Europe', or the 'European project' as embodied by the EU, survive Merkel? In the Realpolitik of Brussels, this translates into

whether Germany will continue to fulfil its obligations as the EU's hidden hegemon after her departure, meaning first of all whether it will continue to pay. This it can do in a variety of ways, many of which are designed to be maximally obscure: by letting its net contributions to the EU budget rise; by allowing the European Central Bank to engage sub rosa in state financing, in contravention of the Treaties; by agreeing to underwrite the Corona 'recovery fund', also outside the Treaties; by allowing that debt to be serviced by more debt in the future, letting the €750 billion, sold as a one-of-a-kind emergency measure, turn into a 'historic breakthrough' toward a 'supranational fiscal capacity' à la française – while, in order to keep interest rates low, intimating to the markets that if the worst came to the worst, Germany would be on-hand to offer 'European solidarity'.

Can 'Europe' continue to count on Germany, with an election coming up whose outcome is more uncertain than ever in the history of the Federal Republic? In late August, it appeared that the next German government, the first after Merkel, would be a coalition of any three out of four parties: CDU/CSU, SPD, Greens, and FDP – the AfD excluded from the arco costituzionale, Die Linke struggling to get above the 5 percent limit, and both in any case deeply internally divided. Which of the three Kanzlerkandidaten might end up as Kanzler nobody can predict, lightweight Laschet and solid Scholz more likely than the pop-up candidate of the Greens, Baerbock. Whoever it will be will not have more than a quarter of the vote behind them, and whatever three-party government is cobbled together will invariably include at least two parties steeped in Federal Republic political orthodoxy. Can centrism be more deeply rooted in a political system?

Nations, organized in states, develop ideas of a national interest reflecting, among other things, their historical experience, geographic location and collective capacity. Enshrined in a country's political common sense and held to be self-evident by its political class, national interests can change only gradually. This holds in

today's Germany, even though there the idea of a national interest is considered alien and must be dressed up as a general European, or even human, interest. At its centre is the preservation of the European Union and, in particular, the European Monetary Union – the latter, by lucky accident, being the wellspring of German national prosperity. Even a national interest as profoundly entrenched as German 'pro-Europeanism' may, however, come under pressure as circumstances change, so that continuous efforts seem advisable to keep the pro-EU consensus alive. For example, of the four parties that may in different combinations of three form the next German government, two, CDU/CSU and FDP, will have to beware of their new right-wing competitor, AfD, offering a different, 'nationalist' concept of what is good for the German people. While this will not be enough to make them 'anti-European', it might force them to be less obliging toward future calls from Brussels for more Europeanism of the pecuniary sort.

For some time now, the European Commission has abstained from publishing information on the net contributions of member states to the EU budget, so as to not wake up sleeping German dogs. But this has not kept the Frankfurter Allgemeine Zeitung from crunching the numbers itself, using publicly available data. It found that in 2020, Germany paid €15.5 billion more to Brussels than it got back, on a gross contribution of €26bn, amounting to 1.74 percent of federal expenditure. Germany was followed by Britain (a net contribution of €10.2bn), France (€8.0bn) and, of all countries, Italy (€4.8bn). There is no official information available as yet on 2021; but in June 2020, the Commission estimated that in that year, the German net contribution would rise by more than 40 percent, with gross payments to grow by a hefty €13bn. In part this seems to reflect a promise by the German finance minister, Scholz, to fill most if not all of the gaps inflicted on the EU budget by the British departure.

At first glance, what Germany pays to the EU is no more than a tiny share of its federal expenditure. Like other countries, however, the German state budget leaves little space for discretionary spending,

perhaps as little as 5 percent, so any increase in EU contributions is bound to be painfully felt. This might make it a political problem that leading beneficiaries of EU finance are the two black sheep, Poland and Hungary, with net receipts in 2010 of €13.2 and €4.8bn respectively. (Ranking second, topping Hungary, was tiny Greece with €5.7bn, obviously a bonus for signing onto the 2015 Memorandum of Understanding and dutifully replacing Syriza with a properly 'pro-European', i.e., pro-capitalist government.) Since the German public tends to regard the EU as an educational rather than an economic or geostrategic undertaking, set up to teach East Europeans neo-German values of liberal democracy with a special emphasis on diversity, authoritarian conservatism in Eastern member states may delegitimize fiscal support for them, especially in times of fiscal pressure. It may even cast a shadow on the 'ever closer union' project as a whole.

In this context the infringement procedures that the Commission has started against Poland and Hungary, at the behest of their liberal opposition parties and their allies in the EU parliament, may be helpful as they involve a threat of EU subsidies being cut unless the countries in question cave in on matters such as the status of their judiciary and sex education in schools – fiscal cuts that save frugal Germans money being an especially appealing educational method for them. Note also the infringement procedure simultaneously started against Germany for not reining in its constitutional court as it insists on the duty of the German government to prevent European institutions like the European Central Bank from curtailing German sovereignty above and beyond what the Treaties allow – a procedure that was demanded by German Green members of the EU Parliament and might not have been activated without the secret connivance of the German federal government.

Is that much caution really needed? As Yanis Varoufakis famously let the world know, 'Whatever it says or does, Germany in the end always pays' (though not to everyone, as he had to learn). This, however, was in 2015, and while the spirit may still be willing, the

flesh may in the meantime have become weak, will bring one, capacity another. Owing to Corona, the German national debt increased in 2020 from 60 percent to 70 percent of GDP, and is likely to increase in 2021 at the same pace, to about 80 percent. There are no indications that Germany's next government, regardless of its composition, would be able, or indeed willing, to abolish the so-called 'debt brake' written into the constitution in 2009, meaning that fiscal policy in coming years will still have to observe narrow limits on new borrowing. (There may, however, be more Corona waves, caused by variants of or successors to SARS-CoV-19, which would justify more emergency spending.) Moreover, already before the pandemic, German public infrastructure – roads, bridges, the railway system – had noticeably decayed over the past two decades, due not least to self-imposed austerity, intended to teach other EU member states that saving must precede spending. Now Corona has drawn attention to further deficiencies in healthcare, nursing homes, schools and universities, all of which will be expensive to re-dress.

And this is far from all. Merkel's 'energy turn' will require, on current estimates, €44bn in compensation for coal regions and electricity suppliers between now and 2038, and even more if the next government, as demanded by the Greens, dispenses with coal sooner. Further, to repair the damage done by the floods of July 2021, a €30bn 'reconstruction fund' had to be set up, to be spent over the next few years. Add to this that the floods may have finally ended the happy days in which climate policy could consist of cheap-talk commitments to ever earlier and ever more unrealistic dates for ending CO2 emissions. Rather than low-cost gestures, what now seems necessary is expensive investment in dams and dykes, in forests less given to catching fire, in air conditioning for hospitals and nursing homes, in fresh-air corridors for cities, and so on. Alongside all this, the new German debt will need to be serviced, while the new EU debt ('Next Generation EU') may turn out to be merely a drop in the bucket.

The latter will likely cause demands in Brussels and Mediterranean

member states for another Next Generation debt wave, to be underwritten by German promises, more or less tacit, to step in as debtor of last resort. And don't forget that all responsibly-minded German political parties have promised that Germany will increase its 'defence' budget by no less than one half, to 2 percent of GDP, in euros from about €46bn a year now to roughly €69bn and more, depending on GDP growth – as demanded by both the United States, so Germany can scare Russia on America's behalf, and by France, so it can be of help in its Sahel wars. On top or as part of this, France had to be promised a French-German fighter-jet system, the FCAS, which will according to realistic estimates cost roughly €300bn over the next ten years – the project being opposed by the German military who believes it is simply a revamping, with German money, of an existing but hard-to-export French system, the Rafale. With that much competition for the little discretionary money in the federal budget, will Mr and Ms German taxpayer continue to stand up for 'Europe'?

Perhaps this question is misconceived, and the issue is no longer how to pay for what is needed, but what to do if what is needed has become too expensive to be paid for. As a starting hypothesis, consider the possibility that the collective costs of running capitalism may by now have once and for all exceeded what societies can extract from capitalism to cover them – to pay for social peace, the formation of patient workers and satisfied consumers, the preparation for and cleaning up after surplus-producing production, the extension and defence of markets and property rights in distant countries, etc. etc. The result would be, and indeed seems to be, a giant 'fiscal crisis of the state', as evidenced by the steady increase of public debt in recent decades, made possible by states under fiscal duress allowing the financial industry to create and package infinite amounts of fiat money into attractive 'products'. By borrowing from it states can, as long as they have credit, buy capitalism a future, simultaneously creating generous income streams for those with enough money to lend, their entitlements passed down to their children and grandchildren.

These are underwritten by equally generous obligations for the coming generations of those with less money, who will be forced to work harder and longer to pay off what has been denominated as their collective debt to capital.

As debt grows faster than capitalism, governing capitalist political economies is becoming a confidence game of a Ponzi variety. Its immortal motto is Mario Draghi's 'Believe me, it will be enough', originally issued to an audience in which everybody had an interest not to notice, and certainly not to say out loud, that the Emperor's clothes have long landed in a pawn shop – if only because they are the pawn shop. In the European Union in particular, securing the future of capitalism with fictitious capital takes the form of a two-level signalling game: governments at the centre send signals to governments on the periphery that they still have reserves, real or reputational, that they may share – signals that peripheral governments then pass on to their constituents, buoying hopes for more than symbolic 'European solidarity', hopes that will soon need to be refreshed by another injection of empty promises. Not everyone is equally good at this game, and among the reasons why Angela Merkel became so important for EU-Europe may well be her unmatched capacity to credibly promise the impossible, her cool contempt for consistency in policy, her astounding ability to enter into incompatible commitments and get people to believe that at some point down the road, she will somehow make them compatible.

Of course, Merkel was helped by a 'pro-European' political class which saw no alternative to trusting that the German magician would postpone any future day of reckoning until the end, if not of time itself, then at least of their time in office. Somewhere in the back of their minds might have resided a hope that the resources needed for Germany to deliver actually exist somewhere, in the basement of the Bundesbank perhaps, and that with skilful negotiating and more political-moral pressure they might eventually be extracted. But apart from this they seemed happy enough to

behold Merkel's virtuoso performance as a Ponzi artist of political desire, an issuer of fiat trust if not fiat money, mistress of postponed debt settlement and unmatched champion of the discipline, essential in times of fiscal overstretch, of political imposture – a discipline that they themselves, faced with their own crises of underfunded statehood under global capitalism, must master day by day.

Will Laschet, Scholz or Baerbock be able to keep the magic alive, to follow Merkel's act when Germany's European periphery need another deferral of payment, another extension of cheap credit – for example, when the interest on their national debt rises despite the best efforts of the European Central Bank? In the 2021 summer of discontent, this seems doubtful indeed.

Read on: Wolfgang Streeck, 'The Crises of Democratic Capitalism', NLR 71.