Compromise ends EU budget dispute

After weeks of wrangling with Poland and Hungary, the German Council presidency just managed to avoid the EU's next looming disaster. On Thursday, December 10, 2020, the European Council summit, the meeting of European heads of state and government, agreed on a compromise.

The budget with multi-annual financial framework for the years 2021 - 2027 is in place. Its volume is approximately 1.1 trillion euros. In addition, about 750 billion euros were approved for Corona aid, which would be better called restructuring funds for increased "green and digital" competitiveness of the European Union. On the issue of the rule of law mechanism, the German presidency of the EU Council of Ministers had pushed through a compromise acceptable to the two Visegrád states.

Rule of Law

As is well known, Poland and Hungary have long been accused of exerting influence on the judiciary and the media and of providing too little protection for minorities. The compromise provides for the new procedure for punishing violations of the rule of law to be supplemented by an additional declaration. This sets out the options for opposing the application of the rule, for example through a review by the European Court of Justice (ECJ). In addition, a finding of non-compliance should not be able to lead to a reduction in grants until it is clearly demonstrated that the non-compliance has a negative impact on the use of EU funds. Moreover, in the event of a dispute, the heads of state and government, i.e. the European Council (ER), must deal with the issue.

If the compromise had been rejected, the EU would have had only an emergency budget at its disposal from January and the Corona Recovery Plan would have had to be organized without the two "outsiders," on which economically hard-hit countries that also have a debt problem, such as France, Italy, Portugal, Spain and Belgium, rely.

Regarding the compromise celebrated as a "victory" by Poland and Hungary, a dispute broke out across all EU parties and countries before the summit decision. Some of the compromisers argued along the lines of the German Council Presidency proposal, while others proposed excluding it and shifting it to intergovernmental agreements that would be formed outside the EU constitutional framework. The Eurogroup and the financial market rescue umbrellas are models for this.

The opposing camp focused on toughness toward the two Eastern European countries. A qualified majority, which was considered certain, would have sufficed for the adoption of the rule of law clauses in the European Council. However, unanimity was required for the budget and the Corona package, and Poland and Hungary could have prevented their adoption by vetoing them.

The dramatic curtailment of civil democratic rights in the two Eastern European countries should not, of course, obscure the double hypocrisy of the rest of the EU. Only the EU Parliament (EP) is elected by the
people, but its influence on legislation is marginal. All the other institutions are components of a supranational apparatus that also depends on the goodwill of the governments of the member states, especially those of the dominant imperialist powers in the EU. Moreover, not only Hungary and Poland, but virtually all states and institutions are moving towards strengthening authoritarian police persecution and surveillance organs or, like France, are introducing racist, anti-Muslim laws. There is certainly no sign of human rights at the external borders.

Second, the conflict is about something quite different from bourgeois democracy, namely a breakdown of internal cohesion, as already expressed in Brexit. We address this contradictory process of integration and disintegration below by outlining its causes in light of developments since the Great Crisis of 2007/2008. Before that, however, let us briefly outline the current economic situation, which in turn is exacerbating the EU’s situation against the backdrop of the global economic crisis.

COVID-19: Stress for the Economic and Monetary Union

The OECD’s (Organisation for Economic Co-operation and Development) autumn forecast expects GDP in the EU to shrink by 3-5% by the end of 2021 compared with the end of 2019, and by as much as 6.4% for the UK - assuming effective vaccination protection! With government, household and corporate debt galloping as a result of SARS-CoV-2, the risk of a financial collapse of historic proportions is rising.

After a recovery in Q3 2020 due to easing measures, the EU Commission now expects the Eurozone economy to contract by 7.8% for 2020 as a whole, to grow by 4.2% in 2021 and by 3% in 2022 (EU economy as a whole: -7.4%, + 4.1%, + 3%). Both the euro zone and the Community area will not have reached pre-pandemic levels by the end of 2022.

Although the rise in the unemployment rate has been curbed, in particular by short-time work schemes, the Commission expects it to rise further after the emergency aid measures expire from 2021: the figures and forecasts for the euro zone and the EU are 7.5% and 6.7% respectively in 2019, 8.3% and 7.7% respectively in 2020, 9.4% and 8.6% respectively in 2021, and 8.9% and 8.0% respectively in 2022. The general government deficit will increase massively in the eurozone compared to 2019 due to rising social spending and falling tax revenues. At that time, new borrowing as a share of added gross domestic product was only 0.6%. In 2020, new debt is expected to amount to 8.8% of GDP, in 2021 to 6.4% and in 2022 to 4.7%. The total debt-to-GDP ratio in the euro area is expected to rise from 85.9% in 2019, to 101.7% in 2020, 102.3% in 2021 and 102.6% in 2022.

The "Corona aid package" ...

390 of the €750 billion aid package is planned as non-repayable additional funding in a program called Next Generation EU (NGEU). For this, the EU is to take on long-term debt for the first time until 2058. Previously, its budget consisted solely of allocations from the member states. In addition to borrowing, it is also planned to introduce its own European taxes (on plastics and CO2).

A closer look shows, however, that the aim of the financial aid can hardly be to fight the crisis directly, but primarily to strengthen international competitiveness on the increasingly competitive world market in the medium term. In 2021 and 2022, just one-fifth of the funds are expected to flow. 218.75 billion euros, or 70% of the total funds of 312.5 billion budgeted for this purpose, are to be used for the two years not to deal with the consequences of the crisis but to mitigate the structural problems of the EU countries on the labor market and are measured against their unemployment rates between 2015 and 2019, i.e. years before the Corona crisis. The distribution over time between 2021 and 2026 is opaque. Zsolt Darvas of the think tank Bruegel estimates that 10% will be disbursed in 2021 and 13% in 2022.
The need for direct crisis-related measures is also apparently limited. For example, 17 EU countries have requested 90 billion euros to support short-time work schemes under the SURE program. At the same time, 240 billion in low-interest loans from the European Stability Mechanism (ESM) for such measures, especially in the health sector, have so far remained untouched, although the waiver of comprehensive "reform" conditions has been claimed when they are used. In view of the experience of the euro crisis 6 years ago, many EU countries would rather finance themselves at low interest rates on the capital market than take this possibly poisoned bait.

... and the future of the monetary union

In recent years, the role of the European Central Bank (ECB) has changed significantly. The boundaries between central bank and commercial bank, which it was originally supposed to strictly adhere to, must be observed less and less. As a result, it is able to buy up bad government and bank securities while keeping key interest rates low. This policy of loose money (quantitative easing; QE) is also flanked by the fact that the euro overtook the U.S. dollar as an international means of payment again in October 2020 for the first time since February 2013. In the financing business, however, its role remains unbroken. According to the Bank for International Settlements (BIS), the dollar accounted for more than half of all international cross-border lending transactions by July 2020.

But what happens if the health crisis and its economic consequences last longer than estimated, whether because vaccination is too late, too little or too ineffective? What happens if the non-pandemic economic, structural causes come through with corporate and bank collapses? Will the ECB be able to sustain QE if the private capitalist sector of the economy doesn't get back on its feet after government subsidies are removed? Already, according to the Institute of International Finance (IIF), the scale of total debt, including corporate debt, relative to GDP is at an unprecedented high globally, making a record jump this year from 320% (2019) to 365%. The OECD expects that 30% of companies will not survive this moment of truth. Banks will have to react by refusing to lend to each other, as well as push for an increase in their source of income, interest rates, if they don't want to get caught in this vortex. Increasing interest rates also makes government bonds more expensive and thus increases the risk of government insolvency. This global economic sword of Damocles naturally hangs over the EU as well.

More robust or more crisis-prone?

Covid-19 is also driving Europe apart. In many places, measured infection numbers, albeit based on broader tests, are higher than in April. The more meaningful number of deaths is now significantly higher even in Germany. Economically, the tourism industry, which is so important for the southern and south eastern countries, is particularly affected. And France, Italy and Spain in particular are suffering from a much worse economic slump than Germany, for example. In addition, the national debts of these 3 countries amount to more than a combined 6 trillion euros with an economic output that is just one and a half times that of the Germany.

To answer the question of crisis vulnerability, we look at the development of the EU since the last crisis. Unlike conventional interpretations of the euro crisis, we do not assume that balance of payments imbalances were caused primarily by excessively high wages in the deficit countries (the neoliberal reading) or excessively low wages in the creditor countries (the neo-Keynesian reading).

Rather, behind this lies an unequal international division of labour determined only in part by wage developments. A superior or dominant position in this, results from the capacity of a few production systems, complex means of production, especially those for the independent production of other means of production (mechanical engineering, electrical engineering, chemical industry). As a result, the southern
European periphery suffered a significant loss of importance, while central imperialist economies such as Germany rely precisely on a more developed and productive performance in these central sectors.

Structural Reforms

Since 2008, in addition to the focus on budget consolidation, which now has a kind of constitutional status, there has been a further deepening of European integration, a noticeable expansion of EU competencies in the field of labour market policy. At its core is the European Semester (ES), which is intended to ensure the coordination and monitoring of national economic, fiscal, labour and social policies. Incidentally, this is also intended to intervene in wage development with sanctions if a reference value of 9% increase in 3 years is exceeded. The ES is a third crisis management mechanism alongside the troika of the ECB, IMF and EU Commission and the ESM.

Structural reforms on the labour market have already led to a weakening of the role of trade unions, a decline in collective bargaining coverage, the casualisation of wages, an increase in precarious employment and involuntary part-time employment. Despite the recovery in most EU countries after the last crisis, and rising employment, there was a slowdown in wage growth. In this context, the number in precarious and agency work increased again from 2010 and 2014, respectively.

The devastating effects were greatest in countries that had to draw loans from the bailout fund. The balance of payments imbalances of the southern European countries fell as a result of the austerity-induced decline in imports, which itself resulted from the decline in effective purchasing power. This obviously has nothing to do with an improvement in their international competitive position. The growing exports from the periphery should not be interpreted as a reduction of deep imbalances. Rather, the slump in industrial production speaks for a further erosion of their production structures. By contrast, the development in Germany and Austria, for example, is quite different. This polarisation within the European division of labour led to a decline in the importance of southern Europe as a sales market for German exports. Since 2012, Germany has been running a larger foreign trade surplus with the rest of the world, especially the so-called emerging economies, than with the eurozone.

Economic shift

The second factor explaining Merkel's and Germany's current position in the budget conflict is the opposite development in the Visegrád countries (Poland, Slovakia, Czech Republic, Hungary). Industrial production there developed even more rapidly than in Germany and Austria, increasing by more than a third compared with pre-crisis levels. The share of mechanical and vehicle engineering, electrical engineering and chemicals also increased from 57 to 59.6%, most significantly in Slovakia. With the exception of Poland, however, these economies became increasingly integrated into the German production system, becoming extended production lines.

Politically, this means a relative weakening of southern Europe and, consequently, a growing asymmetry in the Berlin-Paris axis, which was constitutive for the integration process to date, and a shift in weight from the South to the East. At the same time, we are witnessing a contradictory process in Eastern Europe. The growing economic dominance of German capital is accompanied by political conflicts between Germany (and the EU) and the governments of these states, which are fed by various sources - not least the actions of imperialist competition. On the other hand, the growing economic dependence of the region sets limits to the escalation of the conflict and also explains Germany's greater interest in compromises even with the Polish and Hungarian governments.

Italy: new centre of contradictions?
Italy occupies an intermediate position in the hierarchy of the intra-European division of labour between Germany and the periphery in Southern and Eastern Europe. Since the upheavals of the 1990s and the rise of China as an imperialist power, the conditions of competition have changed dramatically. With the elimination of devaluation possibilities due to the introduction of the euro, Italian industry came under increased cost-cutting pressure due to its specialisation profile. Whereas the country was once able to maintain an exceptionally high level of industrial employment similar to that of Germany, a trend toward partial deindustrialisation seems to be taking hold.

Italy can thus be expected to become the hearth of a future smouldering fire in the EU. The current EU budgetary policy of Germany's Grand Coalition and its comparatively conciliatory attitude toward Poland and Hungary also reflect a change in the continent's economy. The explosive deepening of the crisis in Italy would pose even greater challenges to the EU and its leading power.

Gloomy outlook

Although the budget crisis ultimately ended in a compromise brokered by German imperialism, the wrangling highlighted the fact that within the EU's leading circles and within its dominant powers, most notably Germany, there is also a conflict over the future strategy for Europe. Should "dissenting" smaller states or groups of states continue to be integrated tactically, or should the EU and the euro zone be forged into a centralised, economically and politically more unified bloc of states under German or Franco-German leadership?

At the same time, the widening economic gap between north and south in the EU threatens to further undermine the cohesion of the Union. With an approaching crisis on a scale not seen since World War II, it is extremely unlikely that countries like Austria, the Netherlands, Finland and Sweden, as well as parts of German capital, will share the burden of the crisis in solidarity with the ailing economies. German and French imperialism are thus facing intractable challenges in the face of the global crisis and competition from China and the United States.

French imperialism under Macron is trying to present itself as a pioneer of European "self-reliance". Given the weaknesses of the French economy and France's internal political crises, most of his initiatives are being consumed almost as quickly as they were put into the world. With Merkel and von der Leyen, German imperialism is betting on balance and compromise, at least in form, but time is running out for them in the face of a crisis-ridden European Union and ever-deepening contradictions.

Tougher stance

The threats to Hungary and Poland in the budget dispute signalled that the leadership of the EU Commission and parts of German imperialism are also considering taking a tougher stance against "dissenting" members of the EU. In the budget dispute, however, an "uncompromising" stance would have lost more than it gained. The duration and harshness of the confrontation, however, show that far greater ones would lie ahead if the current crisis were to drive crucial EU economies, such as Italy, for example, to the edge of bankruptcy.

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