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German Ordoliberalism in decline? The EU recovery fund, reconfigurations in the German power bloc and entry points for progressive transformative strategies.

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1. Introduction

The EU recovery fund and the Franco-German proposal initiating it have not only been portrayed as the 'Hamilton moment' of the EU by German finance minister Olaf Scholz, alluding to the 1790 agreement in the United States which turned a weak central government into a genuine political federation by federalizing debt (Kaletsky 2020). The recovery fund and the EU's new capacity to issue bonds on the capital markets have also been despised as the first step into a 'debt union through the backdoor' by Austrian chancellor Sebastian Kurz and heralded by progressive forces such as the German Trade Union Confederation (DGB) as a 'quantum leap' in European fiscal policy (DGB 2020). As different as these perspectives from various political angles are, they seem to converge on the assessment that the EU recovery fund represents a significant breakthrough towards a new quality and higher level of European economic integration.

This is particularly astonishing insofar as Germany had by and large blocked all essential initiatives towards deeper European economic integration in the past years. This holds in particular for the debate over the reform of the European Economic and Monetary Union, in which Germany successively laid to rest projects by France and the European Commission such as a substantial Eurozone or a European finance minister (EMU) (Schneider/Syrovatka 2019). By contrast, in the recent negotiations over the recovery fund, Germany now found itself on

the side of France and Southern Europe defending a sizeable portion of grants against the onslaught of the so called 'frugal four' (Austria, Denmark, the Netherlands and Sweden).

This poses the question whether the German power bloc has fundamentally changed its position towards European Economic Integration in light of the Corona crisis, and if so to what extent. In my view, this question is not only pivotal to understand possible future trajectories of European economic integration. It is also important from a strategic point of view since a loosening up of the German stance towards European economic integration might potentially open up much more space to transform European Economic Integration from a progressive angle than has hitherto existed.

I will address this question by exploring the constellation of interests within the German power bloc towards the reform of the European Monetary Union (EMU) from the last Eurozone crisis until the current discussions on how to find a common European response to the Corona crisis. The investigation is based on an extensive analysis of position papers as well as expert interviews with German business associations, party representatives and ministry officials, conducted as part of my dissertation, analyzed through the lens of regulation and critical materialist state theory as part of a historical-materialist policy analysis (Kannankulam/Georgi 2014, Brand et al. 2020). I argue that Germany's approval of a recovery fund based on a common EU debt instrument does not represent a fundamental paradigm shift within the German power bloc, but indeed constitutes a defeat of its 'hawkish' fraction, particularly within the German finance ministry, and indicates some leverage points for progressive transformative strategies. The paper proceeds as follows: First, I will briefly recapitulate the key trajectories of the EMU reform debate so far and existing contributions on how to explain the German position-taking in these negotiations (2). Secondly, I will in more detail analyze the conflictual constellation of actors and interests towards the reform of the EMU in Germany (3) and how this constellation has been mediated, condensed and refractured through the relevant apparatuses of the German state in the process of the reform debate since 2015 up to the recent decision to initiate the EU recovery fund through a Franco-German proposal (4). Finally, I will present some strategic conclusions with regard to the chances to assert more progressive economic policies in Europe.

2. The puzzle and paradox of German position taking in the EMU reform debate

The Eurozone crisis has laid bare the essential 'construction errors'[1] of EMU, which heterodox economists had exposed since its very inception (c.f. EuroMemo 1997). In brief, and at the risk of gross reduction, these construction errors arise from two peculiar features that characterize the architecture of the EMU: First, monetary policy has been delegated to a supranational institution, the European Central Bank (ECB), without concomitantly establishing fiscal elements of risk sharing and transfer mechanisms with the capacity to effectively counteract and eventually reduce asymmetries between the heterogenous economies laced up with a common currency. Secondly, due to its monetary financing prohibition (Art. 123 AEUV), the ECB cannot act as a lender of last resort towards the Euro countries, which makes them vulnerable to speculative attacks on the financial markets because they can become insolvent, at least in principle (see also Gill 1998b, Laffan 2016, Schneider/Sandbeck 2018). In terms of regulation theory, this has implied a contradictory and crisis-prone incoherence between different structural forms of regulation (the wage relation and the monetary relation in particular) as well as between the overall mode of regulation and the highly heterogenous modes of accumulation and systems of production comprised in the EMU.

The ECB has provisionally resolved the second construction error with its OMT programme, following Draghis announcement to 'do whatever it takes' to preserve the Euro, by circumventing the monetary financing prohibition through buying up government bonds on the secondary market. The first issue, however, remained largely unresolved until the Coronavirus pandemic. To be sure, the architecture of the EMU was significantly transformed through a variety of ad hoc measures such as the fiscal compact and the strengthening of the European semester through the six and two pack. These measures predominantly aimed at consolidating public finance through austerity and at establishing a new European interventionism targeting wages and collective bargaining (Hodson 2015, Schulten/Müller 2012, Sandbeck/Schneider 2014, Syrovatka 2020). Also, the European Financial Stability Facility (EFSF), later transformed into the permanent European Stability Mechanism (ESM),

[1] In my view, the term 'construction errors' is slightly belittling since it might suggest that the architects of the EMU inadvertently made some mistakes. Indeed, it was designed to inscribe neoliberal monetarist principles on a supranational level, significantly constraining the policy space for alternative, progressive economic policy (Gill 1998b, Schneider/Sandbeck 2018).

was set up to provide loans to the so-called crisis countries in return for austerity imposed by the infamous 'Troika'.

However, more far-reaching reform proposals put forward by the European institutions as well as the French government (c.f. Juncker et al. 2015, Macron 2017) have by and large failed to assert themselves or were – as I will outline in more detail below – reinterpreted along the lines of neoliberal structural reforms and austerity policy due to Germany's resistance. These proposals included Eurobonds, i.e. government bonds issued jointly by the Eurozone countries, as well as establishing a European finance minister, a comprehensive Eurozone budget (also referred to as fiscal capacity) to promote economic convergence, including stabilization function to absorb 'asymmetric shocks', a European deposit insurance scheme (EDIS) and a common backstop for the Single Resolution Fund in the event of bank failures. While the idea of Eurobonds and a European finance minister had effectively vanished from the political debate before the Coronavirus pandemic, the Eurozone budget had been shrunk to merely symbolic figures. The German commitment to a European deposit insurance scheme had been tied to conditions designed to delay its introduction indefinitely. And even the common backstop as part of a reformed ESM was still pending. Certainly, Germany was not alone in blocking these reform proposals but enjoyed support by the usual suspects (the Netherlands, Finland and Austria) as well as the East European euro area countries (Slovakia, Lithuania, Latvia). What's more, the introduction of a common backstop as part of the ESM ultimately failed due to Italy's reluctance to agree to the reformed ESM. But as the ramifications of the recent shift in the German position for European economic integration underline, Germany's intransigent stance was arguably the decisive obstacle which accounts for the past gridlock in the EMU reform debate over the past years.

While Germany's intransigence is often attributed to its position as the biggest (absolute) net payer in the EU, it is quite puzzling at closer examination. The formidable success of the German export industry in particular is premised to a significant extent on the Euro[2], whose benefits arguably outweigh the costs of being a net payer by far (Albu et al. 2018, Cafruny 2015, Danninger/Joutz 2007). This begs the question why the German power bloc has been so reluctant to commit to reforms of the architecture of the EMU to improve its long-term

[2] This success is due in particular to the fact that the Euro is undervalued in relation to the German price level. Moreover, the Euro abolished exchange rate risks in the Euro area and deprived Southern European countries of the option of competitive devaluation.

stability, thus constantly hazarding the possibility of a Eurozone break-up, particularly one triggered by an 'Italexit' which had been looming already long before the Coronavirus crisis – and why it was ready to change its position only now.

Existing research on the maneuvering of the German government in the Eurozone crisis can, in my view, resolve this puzzle only to a limited extent (for a similar argument cf. Germann 2017). Idealist approaches mostly point to continued efficacy of the ordoliberal tradition of thought in Germany (cf. Dullien/Guérot 2012, Blyth 2013, Matthijs 2016), but fail to account for the significant deviations of the German position from ordoliberal principles (i.e. by setting up countercyclical stimulus packages in the crisis, by tolerating the loose ECB monetary policy or by advancing the EU recovery fund). Realist accounts interpret Germany's maneuvering as a prime example of dominant geo-economic exercise of power and interest (Kluth 2013, Kundnani 2014,), but hardly specify the actual determinants of German interests, particularly in light of Germany's strong dependence on the EMU (for an exception see Cafruny 2015). Liberal Intergovernementalist approaches, by contrast, focus precisely in Germany's interdependence with the Euro-Area to explain why Germany was ultimately ready to agree to some risk sharing elements such as the ESM (Schimmelfennig 2015), but do not unpack how these (highly asymmetric) interdependencies of Germany and the Euro-Area have actually evolved and reshaped the constellation of interest in Germany.

More recently, responsiveness-theoretical accounts have argued that Germany's preferences in the EMU reform must be explained by vote-seeking behaviour instead of pressure of domestic economic interest groups, since the German position was more in line with public opinion polls than with the key demands of the main business associations (Degner/Leuffen 2019, see also Schneider/Slantchev 2018). However, these authors merely consider the position of individual business associations that represent the interests of big, internationally oriented capital fractions, thus failing to comprehend the complexity of the constellation of actors and interests in Germany. Some materialist accounts are much more granular and instructive in this regard (Heine/Sablowski 2013, Kannankulam/Georgi 2014, see also Hacker/Koch 2016), but solely focus on the phase of urgent crisis management (2010-2013) and rely exclusively on media coverage and the external communication of these actors, which limits their ability to infer underlying motives and interests.

3. Constellation of actors and interests in Germany

In my analysis of the constellation of actors and interests in Germany towards the reform of the EMU, I have sought to integrate the analysis of documents, media reports and expert interviews with an analysis of the main development trajectories of the German production system and its international and inter-European entanglements. As a preliminary result (feedback is highly welcome!), I differentiate four groups of actors along essentially three dimensions: a) their basic strategic orientation and positioning, b) their main political initiatives and projects, and c) their interests and overarching political goals. I consciously decided to avoid notions such as 'neoliberal' and 'pro-' or 'anti-European' when characterizing these groups – common notions even in many critical accounts on this issue – since at least three out of four of these interest groups advocate somehow 'neoliberal' economic policy, albeit in different shades, and at least three out of four advocate some form of 'pro-European' integration projects, albeit in highly diverging forms. Nonetheless, to describe the basic strategic orientation of two groups, I rely on the notion 'constitutionalist' in the sense of Stephen Gill's 'new constitutionalism', i.e. the process of inscribing neoliberal economic principles on an international or supranational level where they are removed from democratic accountability (Gill 1998a). The analysis of the constellation of actors is based on the period from 2015 until the beginning of 2020. The reconfigurations in the German power bloc thereafter are considered in the process analysis. For reasons of space, I refrain from a detailed presentation of specific positional differences within these groups.

(1) To begin with, German business associations representing big industrial and bank capital, which is most strongly internationally oriented, form a group of actors I refer to as the *expansive-constitutionalist group*. This actor group is predominantly comprised of the Federation of German Industries (BDI) (with its various branch-level member associations) and the Association of German Banks (BdB), the association of German private banks, as well as some of the most important German economic research institutes, the Berlin-based German Institute for Economic Research (DIW) and the Munich-based Institute for Economic Research (IfO). I call this group *expansive-constitutionalist* since it has advocated – in line with the position of BusinessEurope (2018), but in open opposition to the long-held position of the German government (see below) – for the expansion of risk-sharing and fiscal transfer elements in the EMU for years already (see for instance BDI 2018) . However, it has done so

only in return for strengthening constitutionalist elements, above all the supranational EU Economic Governance in its ability to promote neoliberal structural reforms and to discipline fiscal policy in the member states.

This group has therefore rallied behind the French and European Commission project to establish a sizeable fiscal capacity or Eurozone budget up to 1 or 2 percent of GDP and has also supported establishing a Eurozone finance minister with the capacity to dispose over the Eurozone budget in a rule-based but discretionary manner (BDI 2018, BdB 2017, Clemens/Klein 2018, Fuest 2019). While there are tensions between big industrial and bank capital over the desirability of a European deposit insurance scheme, they converge on the interest and overarching political goal to secure the long-term existence of the Euro as the basis for their global expansion. This may also be coupled with the aim of imposing further neoliberal adjustments on the Southern European economies in order to integrate them as low-cost supplier peripheries to the German production systems, as Julian Germann (2017) has argued, although there are no clear indications that this integration has actually been happening[3].

(2) In stark opposition to this political line, the *nationalist-retrogressive actor* group opposes any further European economic integration and even pursues the goal of outright dismantling or at least 'consolidating' (i.e. shrinking) the EMU. The two protagonists of this actor group are the right-wing party Alternative for Germany (AfD), initially founded in reaction to Germany's commitment to the ESM by a group of conservative-ordoliberal economists and a former president of the BDI, and the Association of Family Businesses (*Die Familienunternehmer*), a relatively small but nonetheless quite active and influential business association representing 6000 mostly SME enterprises. They oppose any form of joint European liabilities or fiscal transfer elements. Instead, at least the *Familienunternehmer* promote the political project insolvency regime for Euro-Area members in order to revive the 'disciplining effect' of the no-bailout-clause on the member state's fiscal policy weakened through the ESM and in order to regularly expel countries, thus consolidating the Euro-Area, once they default (Familienunternehmer 2018).

While definitely inferior to the first actor group in terms of financial resources and established political influence, the role of this actor group should not be underestimated as it has been

[3] Rather, there are some indications that the German production system has re-oriented itself away from the Southern European periphery (Simonazzi et al. 2013, Heine/Sablowski 2015).

able to channel a significant amount of discontent over the costs of stabilizing the EMU in the German economic elite and the wider public. This is particularly apparent when considering that not only the neoliberal, 'business-friendly' Free Democratic Party (FDP), but also the Confederation of Skilled Crafts (ZDH) in part held similar positions (no joint liabilities, insolvency regime) in the past – without, however, demanding an outright dismantling of the Eurozone (arguably, though, these positions, if implemented, would result in precisely this). Thus, the AfD and the *Familienunternehmer* articulate concerns and interests of German SMEs predominantly oriented towards the domestic market, to which the role of the Euro as an international currency and its undervaluation is largely irrelevant and for which European economic integration partly meant even further competitive pressures (Heine/Sablowski 2013).

(3) The third group of actors can be characterized as *defensive-constitutionalist group*. It aims at maintaining the EMU in its current form, but only by committing to the absolute minimum necessary to secure its continued existence in the short-run. While some smaller business associations such as the German Saving Banks Association (DSGV), the National Association of German Cooperative Banks (BVC) and – at least in part – the Confederation of Skilled Crafts (ZDH) can also be associated with this group, the main protagonists of this group are key apparatuses of the German state, particularly the German finance ministry under Wolfgang Schäuble and the chancellery, and the conservative CDU/CSU. It also includes their extended knowledge apparatuses, particularly the majority position[4] of the German Council of Economic Experts (*Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung*, SVR), but also conservative economic think tanks such as the Rheinisch-Westfälisches Institut für Wirtschaftsforschung, Essen (RWI) or the employer-funded German Economic Institute (IW). In my view, the position of this group can be best understood as an attempt to organize and articulate an *asymmetric compromise* between actor group 1 and 2, thereby – in the sense of Poulantzas (2000[1978]) – seeking to elaborate an overarching position of the German power bloc which is both relatively coherent and capable of mediating and managing its internal divisions. Its position is a compromise insofar as this group has – up to the Corona crisis – effectively resisted any initiatives of France and the European Commission to introduce fiscal elements with a redistributive, risk-sharing or shock-absorbing function or to delegate competences to a Eurozone finance minister, advanced the idea of an insolvency regime and

[4] I.e. excluding the position of the trade union representative.

was even ready to accept (and in part even to promote) the expulsion of Greece from the EMU (in line with actor group 2). At the same time, it was always ready to agree to the minimum necessary to avert the collapse of the EMU, i.e. to establish mechanisms such as the EFSF or the ESM (in line with actor group 1) along Merkel's dictum that 'if the Euro fails, Europe fails'. However, this compromise is asymmetric, of course, since it always set the core priority of actor group 1 (preserve the EMU) over those of actor group 2 (dissolve or at least shrink the EMU).

In this way, it sought to defend – and this is why I characterize it as defensive – the status quo of the EMU against attempts to 'deepen' it towards a 'genuine' EMU while concomitantly insisting – and this is why I characterize it as constitutionalist – that those risk-sharing elements absolutely necessary to preserve the EMU are tied to strict constitutionalist elements, i.e. strict conditionality to avoid 'moral hazard' and 'free-riding'. Importantly, though, it not only sought to undermine the key proposals in the EMU reform debate, but also developed some own political initiatives, particularly transforming the ESM into a European Monetary Fund to be institutionalized through a new inter-state treaty *outside of the legal architecture of the EU*. It thereby sought to establish the EWF as a German-dominated counter-weight to the European Commission, which it considers too 'political' and 'flexible' in handling the budgetary and economic surveillance through the European Semester, charged with the task of technocratically monitoring and enforcing budgetary discipline and structural reforms across the Euro-Area in return for Precautionary Conditioned Credit Lines (PCCL) (German Finance Ministry 2017, Seikel/Truger 2019).

(4) A fourth actor group can be characterized as *expansive-social democratic*. It comprises the SPD, the trade unions and their associated think tanks, the Green party and – to some extent at least – also the Left party (*Die Linke*). This group has been by and large[5] supportive of the reform initiatives put forward by France and the European Commission (similar to group 1), but has been in general opposed to the idea of deepening constitutionalist elements (unlike group 1) as well as to introducing an insolvency regime. It has also promoted its own and in part further reaching initiatives under the broad orientation of 'Social Europe' such as a fiscal capacity in the form of a European unemployment (reinsurance) scheme. This group remained politically largely marginal in the first phases of the conflicts in Germany over the EMU reform

[5] With the notable exception of EDIS, which the SPD opposed until 2018.

but could – in alliance with the actor group 1 – successively gain more influence on the German position in the two years leading up the Corona crisis, as I will now discuss in more detail in the following section.

4. The dynamics and determinants of Germany's shift in position

When analyzing how the position of the German power bloc towards the reform of the EMU evolved over time, we can – in my view – discern at least four distinct phases: (1) one of blockade and deferment (2015-2017), (2) one of unsettling (2017-2018), (3) one of open conflict (2018-2019) and (4) one of reconfiguration in light of the Corona crisis (2020). I will briefly reconstruct the broad contours of these phases in order to make two related crucial points: First, even though profound, the Germany's shift in position in the Corona crisis did not come as suddenly as it might seem, and secondly Germany's shift in position is not as profound as it might seem, i.e. there are some relevant overarching lines of continuity in the German position towards EMU reform and European economic integration which should not be underestimated.

1. Blockade: When the European institutions (European Commission, ECB, European Council, Eurogroup and European Parliament) relaunched their 2012 initiative to propose steps to reform the EMU with the so-called Five President's Report in 2015 (Juncker et al. 2015), there seemed to exist better chances to get some approval from Germany since the SPD had replaced the FDP as the junior partner in government after the 2013 elections. However, even though SPD foreign minister Frank Walter Steinmeier and the SPD minister for economic affairs Sigmar Gabriel symbolically declared support for the proposed EMU reforms with their French counterparts (Gabriel/Marcon 2015, Ayrault/Steinmeier 2016), the SPD-led state apparatuses did not effectively challenge their subordination in the hierarchy of state apparatuses to the CDU-led finance ministry under Wolfgang Schäuble and the CDU-led chancellery under Angela Merkel in questions of EMU-reform. The German finance ministry blocked the relevant proposals, enjoying the support from the German Council of Economic Experts (SVR), which in a special report in reaction to the Five President's Report and the showdown over the Greek Memorandum in July 2015 rejected the reform proposals outright (SVR 2015). At the same time, German finance ministry started to work out its plans to introduce an insolvency regime and to transform the ESM into an EWF outside EU law in order to weaken the newly acquired economic policy competences of the European Commission,

culminating in its 2017 'Non-paper for paving the way towards a stability union' (German Finance Ministry 2017). Thus, while actor group 3 maintained and further elaborated the asymmetric compromise between group 1 and 2, group 4 remained politically marginal.

2. Unsettling: As a consequence, the EMU reform debate did not evolve until 2017 when Emmanuel Macron became French president, asserting the French position in the EU more vigorously, and when the European Commission specified some of its proposals in a new roadmap for EMU deepening, while Germany entered into a phase of complicated coalition negotiations between the CDU/CSU and the SPD. The ensuing coalition agreement marks the beginning of a subtle change of emphasis in the positioning of the German power bloc as the SPD, politically severely weakened by the elections and led by Martin Schulz, the former president of the European Parliament and one of the authors of the Five President's Report, was no longer ready to just passively support the position of actor group 3 in the EMU reform debate in government. The SPD not only managed to get the CDU/CSU to agree to an EWF institutionalized *within* EU law and to agree to some – albeit cryptic – commitment to a Eurozone budget in the coalition agreement, but was also successful in seizing the powerful finance ministry, ending Schäuble's formative reign. However, the repercussions of this coalition agreement in the German state apparatuses unfolded only gradually. The new (and current) SPD finance minister Olaf Scholz began to dedicate himself to his new task by stating that 'a German finance minister remains a German finance minister' and refrained from replacing key architects of the position of the German finance ministry under Schäuble, such as the head of the department for European affairs Thomas Westphal or the conservative chief economist of the ministry Ludger Schuknecht.

(3) Open conflict: It was therefore not until April 2018 when Macron reinforced his demands and Scholz faced increasing internal criticism for not changing course in the European policy of the finance ministry (Die Presse 2018), that the conflict over EMU reform broke out openly within Germany. While the BDI, the main proponent of actor group 1, increased its pressure on the German government, insisting that it was time to drop its blockade (SpiegelOnline 2018), a group of parliamentarians of the CDU/CSU launched an initiative to tie the finance ministry to specific red lines in the European negotiations through a parliamentary vote. Merkel even went as far as to suggest turning the Eurogroup into a 'jumbo council' which would have also included the CDU-economy minister Peter Altmaier in order to sideline the finance ministry in the upcoming negotiations (Handelsblatt 2018). This can be understood as

attempts by actor group 3 to shift the location of power in the EMU reform process within the German state towards CDU-controlled state apparatuses. At the same time, it realized – also in face of mounting pressure from actor group 1 – that its defensive line of blockade was no longer feasible. It therefore launched its EWF-project more assertively, with Merkel offensively promoting an EWF outside of EU law (in evident deviation from the coalition agreement), and changed its strategy from blockade to re-interpretation and weakening. As a result of this shift in strategy of actor group 3 and the growing assertiveness of actor group 4, Germany dropped its principal opposition to the Eurozone budget and a common backstop in the ESM. However, actor group 3 subsequently succeeded in pushing through its project of a strengthened ESM outside of EU law and managed to re-interpret the Eurozone budget initiative, once envisioned to have the size of 2-3% of GDP, into a tiny additional investment facility (lower double digit billion range) tied to the commitment to structural reforms and without transfer or shock absorption element in the Meseberg negotiations with France in June 2018. This Franco-German agreement set the terms for the Eurogroup agreement in December 2018, where a Budgetary Instrument for Competitiveness and Convergence (BICC) as part of the Multiannual Financial Framework as well as a revised ESM-Treaty draft was agreed on in principle. A similar shift in strategy took place with regard to EDIS in 2019, where the German finance ministry dropped its blockade and even urged for the completion of the European Banking Union through the introduction of a EDIS, albeit only under the condition that government bonds held by bank would no longer be automatically considered risk-free, which would strongly favour German and North European banks over their Southern competitors. Thus, by the end of 2019, actor group 4, together with mounting pressure from group 1 and the weakening of actor group 2 since their main political campaign topic – the refugee crisis – faded into the background, managed to force a shift in strategy of group 3 and a partial realignment of the overall position of the German government. All in all, however, before the Corona crisis set in, actor group 3 had still succeeded in either blocking, undermining or bringing into deadlock the main EMU reform projects – except for the common backstop, which it agreed to in return for a strengthened ESM outside of EU law (the new ESM-treaty ultimately failed, however, due to a fierce opposition by Italy).

(4) Reconfiguration: The Corona crisis therefore hit a still highly fragile and vulnerable Eurozone. In that moment, and once the Italian risk premium surged in a way that revived memories of the Eurozone crisis, calls for Eurobonds resurfaced in March and April 2020 with

unprecedented brunt – not only from Southern Europe, but even from the ECB. While the main strongholds of actor group 3, the chancellery, the ministry of economic affairs and the Council of Economic Experts were quick in debunking the idea, sensing the chance to further expand the role of the ESM vis-à-vis the European Commission through the Corona crisis, some of the influential economic knowledge apparatuses and think tanks, including the employer-funded IW, and even some important figures in the CDU changed their position and endorsed at least temporary 'Corona Bonds' (Tagesspiegel 2020). This threw the remaining parts of actors group 3 into the defensive, both at the European and at the domestic level, forcing it to accept a weak conditionality to the ESM credit lines (i.e. without Troika and MoUs) in order to make sure that its main political project in the EMU reform process – the ESM – would not be made obsolete over night by having been proven inoperable in a situation of crisis. Actor group 4, however, did not use this momentum to push through Euro- or Corona-Bonds – neither the German finance ministry nor Scholz and SPD foreign minister Heiko Maas openly advocated for them (Maas/Scholz 2020) – but focused on establishing its project of a European unemployment reinsurance mechanism, albeit only in a temporary form. Actor group 3 therefore managed to suppress and defer the debate about Corona bonds or any other forms of joint borrowing. Even in late April, Merkel continued to insist that such a step would require a treaty change, which – according to her – would come too late to be effective, and instead proposed to merely increase the German contributions to the MFR to provide some form of assistance to the member states worst hit by the pandemic.

What arguably ultimately made actor group 3 to fundamentally reconsider this position, however, was the ruling of the Federal Constitutional Court (FDD) against the ECB's Public Sector Purchase Programme (PSPP) in early May. Although its impact on the ground remains to be seen, it appears likely to significantly constrain the ECB's capacity to stabilize the EMU at all costs, thus increasing the pressure on the German power bloc to find alternative, compensating mechanisms to secure the continued existence of the EMU despite its internal contradictions. On top of this, BusinessEurope indirectly demanded a joint debt instrument, i.e. 'European recovery fund to bring new money to the table without mutualising existing debt between Member States' (BusinessEurope 2020), a demand that was reiterated by a joint statement by BDI and its Italian and French counterparts (BDI/Confindustria/MEDEF 2020). In this situation, Scholz – together with his French counterpart Bruno Le Maire – developed the idea of an own resource fund within the EU budget, raised through the issuing of bonds by the

European Commission, in consultation with the chancellery, which organized the necessary support for this step within the CDU/CSU (Süddeutsche Zeitung 2020).

To be sure, as far as this initiative means a joint supranational borrowing mechanism, this does constitute a profound shift in the position of the German power bloc. It resulted from a partial re-orientation of significant parts of actor group 3, especially at the high levels of core state apparatuses, towards the position of actor group 1, and was motivated by the growing concern within the German power bloc that the Corona crisis, together with the FDD ruling, might otherwise trigger the collapse of the Eurozone, particularly through a transition of power to the Lega in Italy. However, it does not represent a complete defeat of actor group 3. From the very outset, the German chancellery made sure that the recovery fund would be based on Art. 122 TFEU, which allows for temporary financial assistance for member states faced with a natural disaster despite the no-bail-out clause. Therefore, the recovery fund, although constituting a form of joint borrowing and arguably a considerable North-South-transfer component, remains a one-off and temporary mechanism due to its legal foundation. Thus, in no way does it reconfigure the architecture of the EMU as such towards a fiscal union. Even less does it represent a progressive breakthrough, as disbursement of the resources from the recovery fund will be linked to fulfilling the country-specific recommendations formulated by the European Commission, i.e. strengthening the European Commission's capacity to enforce structural reforms and – in the future again – austerity.

5. Some strategic conclusions

What can we make of all this in terms of strategic conclusions? I will refrain here from proposals with regard to the question how progressive policies could look like, focusing instead on the question what this means for their chances to assert themselves in the current conjuncture.

Without any doubt, the recovery fund constitutes a strategic shift within the German power bloc where Merkel together with relevant parts of the CDU/CSU and conservative economic think tanks (actor group 3) re-aligned with the position of major export oriented capital, represented in particular by the BDI (actor group 1). This also means a severe set-back for those parts of the German power bloc, particularly in the German finance ministry, that have sought to weaken the Commission by extending the competences and intervention capacities

of an interstate ESM outside the legal and institutional architecture of the EU and EMU: While the ESM has had a comparatively minor role to play in the crisis management so far, the Commission appears from the crisis stronger than ever. Still, there is a significant line of continuity in the in the positioning of the German power bloc. Just as in the Eurozone crisis, Germany only agreed to the minimum to stabilize the Eurozone in the short-run through a temporary, one-off redistributive mechanism – the only difference is that this minimum requires the German power bloc to go one step further than previously (for a similar assessment see Münchau 2020, Clancy 2020).

Thus, it would be wrong to view the recovery fund as an indication that there is a window of opportunity for progressive reform of the EMU and the EU more generally because the position of the German power bloc is somehow softening. What it does tell us, though, is that the German power bloc is more flexible and ready to compromise when there is a real threat of the Eurozone disintegrating. Arguably, this is even more the case now than it was in the Eurozone crisis: After the 2010 Eurozone crisis, the German export industry was able to quickly re-orient itself towards the emerging markets, China in particular, thus overcompensating stagnant demand for German exports in the crisis- and austerity-ridden Eurozone (Simonazzi et al. 2013, Schneider/Syrovatka 2019). This time, the current intensification of geopolitical rivalries and the USA's and China's attempt to technologically decouple themselves from the rest of the world make such a strategy impossible. German capital and the German power bloc in general are therefore arguably more dependent on the EMU and European economic integration than ever before. As progressive forces, we are undeniably weak in this crisis so far, but at least in this respect, there are comparatively favorable conditions to leverage some of our transformative projects and ideas.

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