HELSINKI GLOBAL POLITICAL ECONOMY WORKING PAPERS
5/2021

PASSIVE REVOLUTION/ SILENT REVOLUTION:

EUROPE'S RECOVERY PLAN, THE GREEN DEAL, AND THE GERMAN QUESTION

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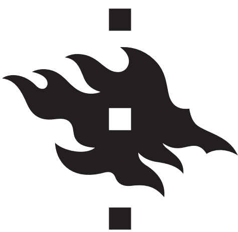

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How to cite the paper: Ryner, M. (2021). Passive Revolution/Silent Revolution: Europe's Recovery Plan, the Green Deal, and the German Question. Helsinki Centre for Global Political Economy Working Paper, 05/2021. Helsinki: University of Helsinki, available at www.helsinki.fi/en/networks/global-political-economy/working-paper-52021

Helsinki global political economy working papers
ISSN 2670-3300 (print)

Helsinki global political economy working papers
ISSN 2670-3319 (online)

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ACKNOWLEDGMENTS:

The drafting of this paper has benefitted greatly from correspondence and discussions with Paolo Gerbaoudo, Heikki Patomäki, Etienne Schneider, and Johan Wahlsten. All responsibility for the contents is, of course, mine.

PASSIVE REVOLUTION/SILENT REVOLUTION: EUROPE'S RECOVERY PLAN, THE GREEN DEAL, AND THE GERMAN QUESTION

Abstract: Is the EU Recovery Plan a temporary measure or does it mark a more long-term change in EU economic policy? Does it, along with the European Green Deal (EGD), break with disciplinary neoliberal orthodoxy? By considering the changing conditions of the political economy of Germany and the terms under which it exercises regional leadership, this paper argues that the causes behind the Recovery Plan and the EGD have longer term sources, but in substantive terms, it does not break with disciplinary neoliberalism. As such, it can be understood in terms of a Gramscian passive revolution. At the same time, these measures are profoundly transforming the form of EU economic governance in contradictory and even paradoxical ways. Though very much in line with an increasingly authoritarian neoliberalism, this change of form makes it increasingly difficult to depoliticize neoliberalism in the EU and to represent it as the natural order of things that simply must be accepted. This opens EU economic governance up for public contestation. But at the same time, it does so in a way that fragments European publicity into distinct national spheres. Social forces working for a more genuine socio-ecological transformation need to develop a better understanding of these contradictory developments of institutional form.

Keywords: European Recovery Plan, European Green Deal, Economic and Monetary Union, neoliberalism, Germany

INTRODUCTION

Is 'another Europe possible' after all? Interpreting the non-ledning clauses of the Maastricht Treaty flexibly, the European Central Bank (ECB) Asset Purchasing Programmes (APP's) that developed as part of Eurozone crisis management, have engaged in quantitative easing for some. However, the €1,350 billion Pandemic Emergency Purchase Programme (PEPP), initiated in March 2020 to support financially stressed member states has taken this to an entirely different level. Add to this what Olaf Scholz has called Eu-

rope's 'Hamiltonian Moment': 'Next Generation EU' that forms part of the new Multiannual Financial Framework (MFF) of the European budget. Induced by a Franco-German initiative, proposed by the Commission, and finally agreed by the Council and the European Parliament in December 2020, this is a three-year €750 billion Recovery Plan intended to support member states' fiscal response to the COVID-19 pandemic. It breaks previous German taboos because it is deficit-funded and financed through mutualized bonds with strong elements of fiscal transfer. The lion's share (€672.5 billion) will be devoted to the so-called Recovery and Resilience Facility (RRF), of which at least 37 percent should contribute to the more long-term flagship initiative of the European Green Deal (EGD). The EGD goes beyond the EU's Paris Agreement commitments by aiming to make the European Union 'carbon neutral' by 2050.

Does this Recovery Plan and the EGD, together with the turn to industrial policy pronounced already under the Juncker Presidency (Wigger 2019), mark the transition from neoliberal austerity in the EU to a Euro-Keynesian propelled socio-ecological transformation that progressive intellectuals and civil society groups have called for over many years (e.g. Lipietz 1992; Bourdieu 1999; www.euromemo.eu; Patomäki 2013; GNDE 2019)? This paper contends that this is not the case, but that at the same time the significance of these developments should not be underestimated. Together they amount to a strategic response to the limitations of previous policies by Europe's ruling elites, underpinned by the sovereign support of the German regional hegemon. Three interrelated arguments are made to substantiate this contention.

First, the strategic response can usefully be conceived as a 'passive' revolution that augments the 'silent' revolution. The silent revolution is what the former Commission President Juan-Manuel Barroso himself called the EU's shock doctrine (c.f. Klein 2007) of Eurozone crisis management. In the silent revolution, the EU executive used the opportunity afforded by the crisis to augment its authority through the so-called 'New Economic Governance'. It thereby leveraged indebtedness without resort to devaluation to deepen neoliberal reform (Ryner 2015; Gill 2017). The need for a passive revolution, a term taken from Gramsci (1971, e.g. 275), emerges *inter alia* from geopolitical pressures and legitimation crises caused by the socio-political base of a power bloc becoming too narrow. It refers to attempts from above to broaden this base pre-emptively 'in a molecular fashion' through cooptation (*trasformismo*), while attempting to engender vitality with a geopolitical response. Having developed the concept to understand post-Napoleonic 19th-century Europe, Gramsci suggested that passive revolutions rarely remain confined within their original parameters.[1] The current passive revolution in EU eco-

1 The usage of the concept of 'passive revolution' and indeed 'revolution' itself, developed to understand a phenomenon in the 19th century (e.g. Holmes 1996), is justified by the premise that in an important sense we still populate the same essential context. In the *Communist Manifesto*, Marx and Engels (1848[1998])

nomic governance does not supersede the silent revolution but forms a part of it and is its further development. Though *trasformismo* is central to the recent initiatives, 'Caesarist' elements (Keucheyan & Durand 2015)[2] continue to dominate as executive institutions, insulated from popular scrutiny and accountability, remain in the lead. This is primarily evident in the subordination of the Recovery Plan and the EGD to the so-called European Semester. The two initiatives add green elements as well as Keynesian and mercantilist methods to what a growing critical literature calls authoritarian neoliberalism.

Second, this strategic response would have been inconceivable without the removal of German blockages to the Franco-German agreement on fiscal transfers and mutualized debt. This underlines the necessity to pose the question of passive revolution in the EU in terms of German regional leadership. A crucial question in this regard is whether the Recovery Plan is a one-off exception for exceptional times or whether this reflects more long-term and organic developments in the German social formation. This paper contends that the latter is the case. Though at first glance an anathema to everything Germany has stood for in EU economic governance, the Recovery Plan is another historical instance that at particular turning points German policy surprises by abandoning what seemed like an entrenched position and responds pragmatically to the long-term interests of its dominant oligopolies and domestic corporatist power bloc. The Recovery Plan and the EGD address risks associated with the bets the silent revolution in its original form made on emerging markets, especially China, and its discounting of the importance of the European home market. Especially notable in this regard has been the need to keep the Italian social formation integrated into the broader European power bloc. Political dynamics in Italy, leading to the appointment of Draghi's

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refer to commodification as the essential impulse revolutionizing the forces and relations of production and the bourgeoisie as the major revolutionary class. For an excellent case that neoliberal globalization should be understood as a continuation of this dynamic, see Gamble (1999). Naomi Klein's conception of 'shock doctrine' – of which Barroso's silent revolution is a case in point – refers, in this context, to a revolutionary strategy whereby crises produced by neoliberal globalization are used as opportunities to extend and deepen such commodification. That is, to break open Marx and Engels' metaphorical 'Chinese walls' that hinder the operation of capital. Gramsci's adoption of the concept 'passive revolution' should be understood as facilitating an analysis of the nuance and political complexity entailed in the process, relating to uneven development and geopolitical rivalry as well as problems of forging requisite ruling class unity and mass consent (e.g. van der Pijl 1989).

2 According to Gramsci, a passive revolution can be based on two methods that are not mutually exclusive, one of which is *trasformismo*. The other is 'Caesarism', which should be understood as a method of 'arbitration' by an executive agency between an 'equilibrium of forces heading for a catastrophe' (1971, 463). This agency can be in the form of a charismatic leader – a Caesar, Napoleon, or Cromwell. But notably, Gramsci also referred to the British national unity government of Ramsay Macdonald – hardly a charismatic figure as an instance of Caesarism. As Keucheyan and Durand point out, the executive agency can also be a non-personalised and non-charismatic bureaucracy, or a coalition of bureaucracies. Gramsci held these to be the most frequent in the modern world (Keucheyan & Durand 2015, 32).

'technocratic' government, characteristically also bear all the hallmarks of passive revolution with both its constitutive elements of Caesarism and *trasformismo*.

Third, despite neoliberal continuity in *substance*, the transformative implications for repertoires of contention of the passive/silent revolution in terms of *form* are of greatest import and need to be better understood. It is beyond the remit of this paper to draw any definite conclusions about these, but some preliminary ones are possible. This transformation contains what mainstream European integration theory calls 'spillover effects' (Haas 1958) that threaten to breach the neoliberal essence of what Friedrich Hayek once called 'inter-state federalism'. More specifically, they threaten the depoliticized representation of market discipline as a natural order of things and exposes arbitrariness in EU bureaucracy. Social forces working for socio-ecological transformation should contest efforts to contain these breaches and seek to politicize them further. This is not an easy task as EU economic governance does not follow a conventional federal public form but rather, as Erne (2015) has shown, relies on 'whipsawing techniques' akin to those multinational corporations apply to discipline subsidiaries. Hence, the politicization of EU governance does not tend to produce a unified public sphere amenable to collective European solidarity and power-mobilisation in contentious politics. Instead, it tendentially generates a fragmented public where 'supranational governance nationalizes social conflict'. The consequences are not without risks for the power bloc itself, however, as it threatens to undermine support for European integration and the Single Market.

In pursuit of this argument, the first part of the paper uses as a starting point the 2020 and 2021 Annual Reports of the so-called Euromemorandum Group – a network of heterodox economists who have shadowed EU economic governance annually since 1997 – to identify the limits and contradictions of the EU Recovery Plan and the EGD as measures to promote a socio-ecological transformation. By pointing to how these amount to partial changes in the method, but not in the essence, of the New Economic Governance, this section substantiates why it makes sense to think of these strategic initiatives in terms of a Gramscian passive revolution. The second and third sections offer a historical account of developments in the German social formation and the reproduction of its domestic power bloc. It thereby demonstrates how the passive revolution is organic to developments within that social formation and its changing conditions for exercising regional –European leadership. The second section focuses on structural aspects and the articulation of the German political economy to European and global order. Drawing on Martin Nicolaus' (1970) idea of 'universal contradiction' as endemic to transnational hegemony, this section highlights the importance of the composition of the German export sector for mediating between the German projection of the general norms of disciplinary neoliberalism at the European level and the specific requirements

for maintaining its particular variety of welfare capitalism at home. The third section focuses on German agency and strategy. It demonstrates that ostensible German U-turns have occurred before and serve as a reminder that German pragmatism, flexibility, and willingness to compromise should not be underestimated. Still, it is important to note that these have consistently served enduring German interests with attendant limitations and that is very much the case also at present. The paper concludes by reflecting on the continuity in content and transformation of form and outlines three possible scenarios. These are not to be understood as predictions, but rather as a means for reflecting on the strategic terrain upon which socio-ecological transformation in Europe needs to be forged.

THE EUROPEAN GREEN DEAL AND RECOVERY PLAN

The EU Recovery Plan is a conjunctural response to a historically severe and uneven economic stress caused by the COVID-19 pandemic. The Commission estimated that EU GDP would shrink by a historic 7.4 percent in 2020 and in the worst-hit case of Spain, by 12.4 percent. This followed a period of anemic and highly uneven post-Eurozone crisis period of growth that had reached its end in 2019. Crucially, this conjunctural response is configured to contribute to and boost the longer-term response to the global climate crisis and other ecological problems through the EGD. The EGD was announced by the incoming German Christian Democratic President Ursula von der Leyen as a cornerstone of her agenda for the European Commission and adopted as such in January 2020.

With the EGD, Commission President von der Leyen (2019) has proposed an increase of EU carbon emission reduction targets to 55 percent of the 1990 levels, compared to the 40 percent of the Paris Agreement. The proposed measures include:

- an extension of the EU Emissions Trading System to a broader range of sectors, including maritime and air transport, and the adoption of the tariff-like Carbon Border Adjustment Mechanism;
- a 'circular economy action plan' to reduce material throughput, increase reusing and recycling, and a 'sustainable products policy', which will use financial incentives and regulations to promote resource-efficient design;
- a sustainable and smart mobility strategy to reduce 90 percent of transport emissions by 2050;
- a 'farm to fork' strategy to increase sustainable food production, decrease the use of chemical pesticides and fertilisers, and a biodiversity strategy promoting forest preservation and afforestation;

- a 'zero pollution' action plan for air, water, and soil;
- finally, the raising of the EGD financing needs, estimated to amount annually to 1.5 percent of EU GDP until 2030, currently €260 billion per year. The cornerstone for this would be a €1 trillion Sustainable Europe Investment Plan (SEIP), including a €140 billion Just Transition Mechanism targeting regions and sectors most affected by the transition. 25 percent of EU budget funds are to be devoted to climate and related finance, amounting to €500 billion. This is in addition to €114 billion co-financed by member states. Furthermore, investment guarantees provided by the InvestEU Fund and European Investment Bank loans should leverage €300 billion of private and public (member state) funds (European Commission 2020a). It is to this fiscal mechanism that the RRF of the Recovery Plan would make a significant additional contribution.

The 2020 and 2021 Euromemoranda elucidate how these measures are problematic from the point of view of a socio-ecological transformation. Though welcoming the aims of the EGD in principle, the Euromemoranda assess the above measures as insufficient vis-a-vis the objectives set and, in the case of EU's external relations, outright wrong-headed. The critique is partly about quantitative proportions. The SEIP is likely to be inadequate and based on overly optimistic assumptions about raising private investments. Only €7.5 billion of the total amount pledged is new money in the original SEIP (2020, 7–8). The RRF is another matter but it is likely to provide only about a quarter of the southern member states' financial needs. Contrary to the planned expansion of the EU budget from 1 to 2 percent of EU Gross Domestic Income (GDI), Euromemorandum (2021, 12) recants a long-standing argument that can be traced back to the McDougall Report, that the Eurozone requires a common EU budget of at least 5 percent of GDI (European Commission 1977).

But the problem is understood to be at least as much about quality. An EGD based on expanding the emissions trading system and 'blended finance', where 'governments take on the risks, while private investors earn the profits' (Euromemorandum 2020, 8) suggests that the European Commission has learnt little from the global financial crisis. Building the EGD on a continuation of finance-led capitalism is particularly problematic because of the asymmetrical power relations unrestricted capital flows impose on debtors in the periphery, which are likely to continue to result in conditionalities of unequal exchange, which are amplified when one considers environmental externalities (Jäger & Schmidt 2020).

The Euromemoranda also do reserve their sharpest critique to the international level and von der Leyen's vision of a 'geopolitical Commission committed to sustainable policies'. It is here that the most fundamental contradictions of the EGD become ap-

parent. These include the continued commitment to a 'deep and comprehensive' free trade agenda, a 30 percent increase in the EU budget for military 'external actions', and the tightening of external border controls under the heading of 'protecting the European way of life'. These policies are in direct contradiction with stated EGD aims: trade, military, and security policies have contributed to the loss of biodiversity, which both increases the impact of climate change and weakens resilience against it (Euromemorandum 2020, 13). Furthermore, trade and investment agreements form legal obstacles against policies required for socio-ecological transformation (Euromemorandum 2020, 25–28). More generally, concrete initiatives to promote international solidarity and cooperation are judged by Euromemorandum 2020 to be largely absent from the von der Leyen agenda. This raises serious questions about carbon and other environmental leakages from Europe to other parts of the world, and the concrete commitment to 'differential responsibilities' in combating climate change as per the Paris Agreement. Policy seems rather to be symptomatic of the tendency to displace externalities to weaker actors in the international system (c.f. Lessenich 2020).

Euromemorandum 2021 elaborates on these concerns by pointing to evidence in the Commission's own Action Plan for Critical Raw Materials (European Commission 2020b). The latter estimates that the EU will need 18 times more Lithium by 2030 and 60 times more by 2050, which is likely to exacerbate stress on water resources for instance in the arid Andes region, and contribute to historic relations of dependency and social conflicts between the extractive mining sector and indigenous farmers (e.g. Furtado 1976). The case of lithium is only an example of similar needs for other critical raw materials, which will generate lateral pressure and resource conflicts with China. This is especially the case in Africa, which EU High Representative Josep Borrell calls a 'field of geopolitical competition' (Fox 2020). It is with reference to the latter that one can appreciate how limited the EGD is, and how wound up its commitment to defend the 'European way of life' is with sustaining what Brand and Wissen (2012, 547) have called the 'imperial mode of living'. That is, 'resource – and energy-intensive everyday practices…based on an unlimited appropriation of resources and labour power and a disproportionate claim to global sinks' (see also Brand 2020; Paterson 2000).

If there were any uncertainties over whether the EGD and the Recovery Plan would be subordinated to neoliberal and finance-led continuities, they were dispelled by the fact that everything will be subject to the conditionality of the so-called European Semester. While there is a 'holiday' on fulfilling the macroeconomic criteria during the current deep recession, that is not the case with 'structural' reforms (Höpner 2021). The 'Hamiltonian moment', in other words, is not to be an alternative to disciplinary neoliberalism and new constitutionalism – whereby social subjects are increasingly subject to market discipline and ever-deeper forms of commodification (Gill 1991; Gill & Cutler

2014) – but builds on it. New constitutional lock-in mechanisms have a long lineage in European economic integration. The importance of a macroeconomic framework where 'Ulysses is tied to the mast' (Giavazzi & Pagano 1988; Issing 2002) and prevented from pursuing expansionary economic policies and ambitious public investments for social and environmental purposes is central to the construct. The intent is thus to create a mode of 'asymmetric regulation' (Holman, 2004) in accordance with what Hayek (1948) conceived of as inter-state federalism. Supranational competence is here reserved to certain market-making entities whose remit it is to secure economic competition and price stability, whereas fiscal, social and environmental policy remain at the national and sub-national levels. Even where those units agree that concerted measures to regulate markets would be desirable, collective action problems in the form of 'joint decision traps' emerge as different state traditions and interests make it difficult to reach requisite agreement on the particularities of such measures (Scharpf 1988).

Originally, the European Monetary System (EMS) of fixed exchange rates between national currencies, under conditions of capital mobility, lent a degree of market-automaticity to new constitutionalism and disciplinary neoliberalism via the balance of payment constraint. This was the period when disciplinary-neoliberal lock-in mechanisms operated in their most depoliticized form. Anchored by Bundesbank anti-inflationary policy, any expansionary policy outside the norm would be met by currency outflows requiring increases in interest rates that neutralized the original stimulus (Gill 1991). When such a 'power of exit' was eliminated by the introduction of the Euro, disciplinary neoliberalism was instead ensured, on the fiscal side, by the Growth and Stability Pact that grew out of the so-called Maastricht Convergence Criteria. This was the origin of what Menéndez (2021) calls 'governance through numbers', where good citizenship depends on satisfying a set of quantitatively defined benchmarks, and where failure to live up to these benchmarks places the polities of member states in a state of exception and subject to externally imposed conditionality. As Menéndez points out, since the quantitative indicators are fallaciously based on the assumption of incontrovertible economic fact, the apparent objectivity of the numerical benchmarks masks arbitrary executive authority.

The Growth and Stability Pact in its original form contained its share of arbitrariness. What is so special about a deficit target of 3 percent of GDP, or a debt level of 60 percent of GDP? But at least the numbers were not particularly tendentious, nor did they refer to areas outside supranational competence. As far as 'structural' policy was concerned – such as public ownership, industrial relations, or social policy – they were only subject to the voluntarist process of the Open Method of Coordination. This changed with the silent revolution in the course of the Eurozone crisis management, with the so-called Two Pack and Six Pack of Regulations and the Fiscal Compact which

were devised as a *quid pro quo* of the ECB's unconventional monetary policy and the creation of the European Stability Mechanism (ESM). Henceforth, arbitrary executive power proliferated and was radically extended. First and foremost, 'structural reforms' – a euphemism for neoliberal policy to retrench the welfare state and open new realms for commodification – fell inside the domain of what states under the state of exception had to undertake to redeem themselves with the Troika – the ECB, the Commission, and the International Monetary Fund. Furthermore, the benchmarks themselves became increasingly tendentious and subject to arbitrary interpretation in a process where member state authority to veto was circumscribed through the introduction of Reverse Majority Voting (Oberndorfer 2015). This includes the idea of 'structural deficit' which relies on 'potential GDP', a concept that is notoriously difficult to measure, and where the authority to interpret resides exclusively with the Commission's Directorate-General for Economic and Financial Affairs. The European Semester is the process through which this New Economic Governance takes place. Country Specific Recommendations (CSR) are not only issued by the Commission to countries that have failed to meet the benchmarks or require support but to all member states. This has mattered little in the case of surplus countries not dependent on financial support, which could treat CSR's just as recommendations. This changes with the Recovery Plan, which will require states to satisfy the CSR's to access funds that have been generated by their own power of taxation.

GERMANY IN EUROPEAN AND GLOBAL ORDER: A UNIVERSAL CONTRADICTION

The previous section has outlined the essential content of the EGD and the Recovery Plan as central measures in a passive revolution. As such, 'green' and Euro-Keynesian elements are understood as means intended to address geopolitical challenges and the need to maintain an adequate social base within what remains an essentially disciplinary neoliberal model of development. This and the next section will provide a historical analysis of the so-called German Model. They demonstrate how this change in method, but not in disciplinary neoliberal substance, is consistent with developments within the German political economy and with the conditions under which Germany exercises regional leadership. Martin Nicolaus' (1970) concept of 'universal contradiction' is a good starting point for such an analysis (Gill 2008). Originally devised to analyse the USA but here extended to German regional hegemony in Europe, the basic idea is that a transnational hegemon projects a universal principle, but particular parochial interests and circumstances underpin this projection. Knowing the conditions and limits of the existence of those particularities is crucial. In the German case, the universal contradiction

resides in the fact that Germany has been the leading agent and boundary maintainer of disciplinary neoliberalism at the European level while maintaining one of the most advanced forms of welfare capitalism and industrial policy capacity domestically. The specific nature of its export-oriented transnational capitalism has been crucial in mediating the contradiction (Ryner 2003).

The leading role of Germany, and especially its Economic Ministries and the Bundesbank, in the forging of disciplinary neoliberalism, is historically evident in the role played by ordoliberal norms of competition policy and the formation and functioning of the EMS. It is also manifest in the establishment and functioning of the European Monetary Union (EMU) and the EU's tariff reduction arrangement for the Global South, the General Scheme of Preferences (Bonefeld 2002; Dyson & Featherstone 1999). Similarly, in the silent revolution during the Eurozone crisis, German economic ministries led forces resisting debt mutualisation and other forms of fiscal federalism and promoting the New Economic Governance, underpinned by the notion of 'expansionary contraction' (Alesina, Favero & Giavazzi 2019). At the same time, it is not inaccurate to characterise Germany's 'comprehensive concept of control' (van der Pijl 1989) for Europe as 'disciplinary neoliberalism for others; social democracy for us'. In Germany itself, social legitimacy has depended on social insurance based on the income-replacement principle and corporatist 'convoy' collective bargaining, where the most productive sectors have led wage determination for the economy as a whole. The German Model has also traditionally rested on cartel-like relationships between an oligopolistic set of universal banks and corporations resulting in implicit industrial policy, underpinned by institutions such the Kreditanstalt für Wiederaufbau (KfW) (e.g. Streeck 1997).

Claims to universality notwithstanding, the disciplinary neoliberal European arrangements played specific and important roles in the German Model. The price-stability mandate of the German Bundesbank and later the ECB anchored collective bargaining to a highly dynamic export-led form of capitalism (Streeck 1994) while European competition policy ensured open access of German capital to European markets, and fixed exchange rates prevented competitive devaluations in other member states, most notably Italy and France. This equation of regional disciplinary neoliberalism with national social democracy was made possible by the rents extracted by the oligopolistic export sector, possessing considerable price-making capacity in pursuit of fixed profits (Halevi 2019a). This, in turn, made possible a politics of distribution based on corporatist interest intermediation.

Concomitantly, German hegemony in European governance as conditioned by American and Dollar hegemony on a global scale has mediated the universal contradiction. Oligopolies of the German type compete not through prices but through the build-up of productive capacity. Hence, though capable of generating high profit rates,

they are vulnerable on the demand-side and prone to generate surplus capacity (Halevi 2019a). In the traditional American Fordist formula, this form of oligopolistic competition underpinned the 'New Deal Synthesis' and the support for Keynesian demand management at home and abroad in the Cold War Grand Area Strategy (Gourevitch 1984; Kolko & Kolko 1972). But as post World War II Germany did not directly control the space of operation of the continental home market of its oligopolies, different methods were devised via the balance of payments channel within the broader framework of American hegemony (Halevi 2019a; 2019b). This constraint allowed German oligopolies, mainly specialising in investment goods, to anchor wage determination as an external constraint while relying on exogenous demand stimulus from the United States as the last resort.

In the immediate postwar period, the Korean War boom and the Marshall Plan ensured adequate demand expansion. Especially important in this context was the non-convertibility of currencies and the use of counterpart funds in the European Payments Union. This eliminated the balance of payments constraints of Germany's European partners. Balance of payments constraints returned with currency convertibility in 1958. From that point on, Germany has navigated between the Scylla of loss of export competitiveness and the Charybdis of inadequate demand expansion. In the Bretton Woods period, US deficit spending and its emergent balance of payments deficit played a central role in ensuring international demand expansion. But in addition, Germany was still building up and modernizing its capital stock and had ample supply of migrant labour from eastern Germany, and as such served as a locomotive for the other European economies, who in the last instance could avail themselves of the devaluation mechanism (Halevi 2019b). This changed in 1966 amidst an emerging current account deficit, in Germany itself, when the Bundesbank increased interest rates to prevent inflation. After this, Europe's Common Market entered a prolonged period of stagnation in terms of output as well as productivity.

In the more socio-economically unequal neoliberal era, characterised by a falling social wage-share (Stockhammer 2004; Bengtsson & Ryner 2015), Dollar hegemony remained but the financial mechanism and expansion of debt via asset values became central to transatlantic demand formation (Dumenil & Levy 2004). This compelled a major transformation of German oligopolies, characterised by a weakening of long-term linkages to banks, financialisation, and increased needs to embrace lean production to satisfy shareholder value (Grahl 2001). Nevertheless, they were on the whole successful in adjusting their export strategies through a re-negotiation of the internal corporatist settlement in a way less favourable to organised labour and with less social inclusiveness (Vitols 2004), whereby wage increases were set below rates of productivity growth. This has increased precarity within Germany itself, not the least through the

Hartz Reforms (e.g. Voigt 2019). The EMU and before this the EMS were central in this regard, as they tied European partners to regional fixed exchange rates, preventing devaluations from undermining wage competitiveness. Accumulated German surpluses have in exchange provided conditional support against the turbulence of Dollar unilateralism (Ryner 2015).

The global financial crisis raised, once again, the question of whether and how to maintain adequate demand expansion. The COVID-19 crisis has underlined that the question remains unanswered. This fact, in addition, is connected to the uncertainty over American hegemony and the rise of China. Finally, there are issues pertaining to transformations in Germany's own political economy and the country's position in the world. These include German exports becoming more price sensitive (Baccaro & Pontusson 2016, 189–90), with reduced capacities to exert rents, and the long-term implications of the disintegration of the industrial policy-like cartel-links between banks and productive capital. Up until, and including, the silent revolution, the predominant responses deepened disciplinary neoliberal trends without resort to indigenous European instruments to facilitate demand expansion. In this context, emerging markets, notably in China, were mainly seen as outlets for German exports. Uncertainty about American leadership under Trump, increased concerns over China as a rival, and questions over the long-term viability of the Eurozone, especially given the rise of Eurosceptic forces in Italy, have compelled a reassessment. This is the appropriate context in which to understand the contemporary passive revolution.

GERMANY AND THE PASSIVE/SILENT REVOLUTION IN HISTORICAL PERSPECTIVE

In the neoliberal period, Germany came to exercise regional European leadership in response to the crisis of the 1970s. The chief product of the crisis was the EMS, the precursor to the EMU. Having been one of the main beneficiaries of the US post-World War II Grand Area Strategy (Halevi 2019a), German policymakers approached the stagflation crisis, rising protectionism, and the collapse of the Bretton Woods arrangement of fixed exchange rates with concern and were quite ready to use its accumulated capabilities to help shape the international system. According to Julian Germann, two approaches were under consideration. Perhaps surprisingly when 'reading back' from what eventually transpired, an international Keynesian response was under consideration. Under such an approach, parts of Germany's accumulated central bank reserves were to be turned into loans to other European and developing countries providing considerable stimulus to global demand to help maintain post-World War II class and social compromises (Germann 2014, 708). Though initially supported by the Chancellor's Office

and the Ministry of Foreign Affairs, the resistance of the Ministry of Finance and the Bundesbank prevailed because of the risks to 'stabilisation policy', in other words, the anti-inflationary policy that had served Germany's oligopolies so well. Given the success of German corporatist wage discipline and the favourable terms of trade that made it possible to tolerate revaluation, the Bundesbank/Ministry of Finance preference could be cemented not only in the state apparatus by and large, but also in the trade union movement. Hence, Germany championed free trade multilateralism, opposing protectionist nationalist industrial policy in other countries, and resisted multilateral initiatives for coordinated reflation. Though there was full awareness of the risks that this posed for securing international demand for German exports, the balance of pros and cons was clear enough. Maintaining floating exchange rates against countries threatening to export inflation to Germany and maintaining fixed rates with others to avoid competitive devaluations were central in the repertoire of measures. Germann (2014, 710–13) argues that the discipline exerted through such exchange rate policies deliberately sought to influence the domestic politics of other states, most notably to weaken left-wing forces in favour of nationalist paths towards socialism. German agency was even decisive, he contends, in facilitating the Volcker Shock in the United States.

Thus, Germany came to exercise leadership in the formation of new constitutionalism and disciplinary neoliberalism in Europe. There were nevertheless a number of countervailing considerations which made the situation more open-ended and Germany more amenable to compromise than what is often supposed. Central in that regard was the dramatic U-turn in favour of encompassing European monetary cooperation in the form of the EMS that the German government undertook at the European Council's 1978 Copenhagen Summit. To facilitate the required political compromise, Chancellor Helmut Schmidt pointedly did not appoint a Bundesbank or Finance Ministry official to co-chair the Franco-German EMS working group but rather his own economic adviser from the Chancellor's Office, Horst Schulmann. The French representative was less surprisingly with the Bank of France governor Bernard Clappier (Mourlon-Druol 2012). Though ultimately persuaded by the Bundesbank to resist it, Schmidt was initially amenable to making the new Unit of Account, ECU, the numeraire of EMS, which would have made adjustments more symmetric between surplus and deficit countries. Furthermore, throughout the negotiations he was amenable to agree to a substantive European Monetary Fund providing significant transfer payments. The main countervailing factor that motivated this willingness to compromise was the premium Schmidt put on attempting to persuade Italy and the UK to join EMS, so as to maximize the lock-in against devaluations (Ryner 2021). Ultimately it was France, not Germany, that vetoed a substantial monetary fund. When Italy nevertheless joined the EMS and by the time of the Volcker Shock in the early 1980s, however, this window for alternatives had closed.

Germann explains continuity in Germany's disciplinary neoliberal response to the Eurozone crisis in terms similar to those of the origins in the 1970s. The nature of Germany's increasingly financialised oligopolies and their terms of access to transnational markets make intelligible Germany's obstinate refusal to endorse Keynesian federalist measures. The oligopolies sought profitable deployment, especially for the investment goods sector, through sales in the emerging markets of China and Latin America. This made it rational to pursue austerity and structural adjustment in Europe, as the European market was now primarily important because of the role it plays in the supply chain of German corporations rather than as a source of competition or a sales market. The structural adjustments of the New Economic Governance would, in this context, help contain costs in the supply chains. In addition, and in accordiance with a disciplinary neoliberal outlook, Germany has been concerned about a coming credit crunch in America that would create an unsustainable debt overhang in the periphery of the Eurozone (Germann 2018).

The question that has been posed by the current passive revolution is, though, whether the above, in fact, point to the very limits of the previous German hegemonic strategy. If German capital thought it could rely on the stable and long-term expansion of emerging markets, it was a risky strategy, since, first of all, emerging market expansion was based on a bubble. Second, as is becoming increasingly apparent, Germany can no longer consider China merely as a market outlet. Rather, the country has become an outright rival that threatens to outcompete German capital in its own sectors. Third, it is also risky to treat the home market – the largest single market in the world – simply as a production platform for export. Even if the importance of the East Asian market has increased, given the German economy's structural coupling with consumption in other European social formations, it would take a monumental shift for Germany to rid itself from its regional economic dependencies (e.g. Aglietta 1982; Deubner, Rehfeld & Schlupp 1992; Halevi 2019c). Italy's 'system-critical' importance, and the relative importance of its market for German exports vis-a-vis China, is also increasingly acknowledged in the wake of the Corona Crisis (Riedel 2020). Finally, in a context of massive overaccumulation of financial capital, a banking system completely dependent on central banks, and a pervasive slow-down of economic growth, it is doubtful that any obsessions with coming a European debt overhang based on interest rate hikes in the US are based on rational calculus.

According to Etienne Schneider (2020), there are ratherorganic reasons for Germany's acquiescence, indeed leadership, in advancing the Recovery Plan and the EGD. Though dominant fractions of German capital remain strongly committed to disciplinary conditionalities, they have been concerned about the risks of a Euro breakup and the instability and fragility of emerging markets as market outlets. As such, despite ap-

parent German rigidity, they have for some time advocated a more positive approach to debt mutualisation and fiscal federal measures in exchange for 'structural reforms' (BdB 2017; BDI 2018, cited in Schneider 2020; BDI & BDA 2020). Subsequently, this became a common position of Business Europe (2020), and indeed is exactly what the Recovery Plan and the EGD offer. The previous obstinacy of the German position has had to do with the need to mediate these interests with more conservative fractions of small firms and domestic capital. The COVID-19 crisis did, however, signal a major change here at a time when groupings within the German social democrats also increasingly came to advocate more Euro-Keynesian measures. It is rather emblematic that a champion of the Franco-German initiative was a German State Secretary with a past in Goldman Sachs (Kukies 2020). There is also an increased concern in Germany over Chinese takeovers of blue-chip companies in vanguard sectors, such as in the case of the robotics manufacturer KuKa. This has made the German government, under the Christian Democratic Economy and Energy Minister Peter Altmaier, take a more favourable position to active industrial policy, joining France in seeking a more conditional approach on competition policy, and lowering the threshold to intervene in takeovers pertaining to defence, infrastructure, or security related technologies (Ferenczy 2020; Deutsche Welle 2018; Schulz 2019; BDI & BDA 2020).

At least in the short run this strategy of combining Keynesian and mercantilist methods with neoliberal conditionalities has enjoyed certain success. Above all, it has removed the more immediate threats to a Euro exit in Italy with the formation of a 'technocratic' government headed by Mario Draghi with a broad-based support from the left and the right. This most notably includes Matteo Salvini's and Lega's climbdown from their Eurosceptic rhetoric in response to the pressures from its small business constituencies in northern Italy. Indeed, these developments in Italy are very much in line with the dynamics of a passive revolution, with a broadening of the supporting coalition (*trasformismo*) and centralization of authority in a technocratic executive (Caesarism) (Palombarini 2021).

CONCLUSION: CONTINUITY IN CONTENT, TRANSFORMATION OF FORM, AND THREE SCENARIOS

As early as 1967, Ernest Mandel observed that capitalist development in Europe inexorably shifted the terrain of the socio-political contest to the supranational level (Mandel 1967). As he well appreciated though, this development is uneven. One way of understanding the ability of neoliberal rule to deepen commodification in Europe is its success in harnessing such uneven development to create something akin to Hayek's idea of inter-state federalism. Germany's leadership in European macroeconomic management has been central in forging such asymmetrical regulation. Yet, the anarchic

tendencies in capitalist commodification require some form of socialisation (what Marx called *vergesellschaftung*) if social stability is to be ensured (van der Pijl 1989). Though vastly overstating the strength of this force, the concept of 'spillover' (Haas 1958) in mainstream neofunctionalist integration theory reflects an understanding of this need. Together, these insights from Mandel, van der Pijl, and Haas provide parameters to assess Europe's passive revolution.

Van der Pijl calls the agents of socialisation 'cadres' – the managers of capitalism in corporations, state apparatuses, and international organisations. With a professional concern for the reproduction of the prevailing systems, they are aware of crisis tendencies and form a central orchestrating role in passive revolutions. The handprints of such 'cadres' seem evident in von der Leyen's Commission and key European state apparatuses such as those of Germany. With PEPP, Next Generation EU, and the EGD these managers can be seen as responding to systems-critical threats such as the COVID-19 pandemic, global warming, populism, and the re-emergence of global rivalries induced by the rise of China. But the responses are structurally configured to be in line with those of dominant social forces. The Recovery Plan and the EGD essentially amount to a green-washed version of imperialism, whereby German capital seeks to respond to the above challenges by recasting the European social compact over which it exercises hegemony.

A recent Bruegel Policy Contribution (Leonard et. al. 2021) outlines a coherent vision of this dominant tendency and scenario. It articulates in a subordinate manner, Keynesian, mercantilist, and green elements into a neoliberal strategy. Apart from making the European Semester conditionalities dominant in EU economic governance, its authors advocate a multilateral 'climate club' of like-minded states. The 'like-minded' would include the United States under the Biden Administration, but the club should also be open to others committed, including China. The club would agree on common standards, which would minimize the need to use the tariff-like Carbon Border Adjustment Mechanism. This would include exercising leadership in setting the standards of 'green bonds'. The RRF should also be internationalized as a tool for external policy, including aiding the green transition of hydrocarbon-dependent economies. The Bruegel contribution also recognises the problem of securing critical raw materials and argues it should be countered, to as large an extent as possible, through recycling and substitution. There are strong structural forces at play in favour of such a 'club'. The subordination of European capital to American financial capital, especially in transnational funding and collateral provision (Grahl 2020, 22–23), limits the scope of European autonomy vis-a-vis the United States. To this one might add, that if German companies have concerns over Chinese takeovers, the same does not apply to Ango-American private equity firms (Economist, 2020).

The problem with this vision is that it most likely overestimates the power of markets to absorb and diffuse the potentials of new technologies to radically alter practices of production, consumption, and infrastructure to reduce energy consumption and micro-practices (Morgan & Patomäki 2021) which are deeply rooted on the consumption of hydrocarbon and other non-renewables (Paterson 2000). Economic history demonstrates that paradigm shifts rather require missionary investments by the state (Perez 2003). Hence, there are overhanging risks that geopolitical rivalry over critical raw materials, above all with China, cannot be mitigated. Notwithstanding apparent short-term success in Italy, there are also question-marks over the capacity to legitimate the increased dependence on supranational bureaucracies such as the Commission and the European Semester even within the apex of the power bloc itself. Here, the nationalisation of social conflict that follows the usage of whipsawing techniques does not help, since, for instance, it subjects Germany to European Semester conditionalities (Höpner 2021). The passive revolution faces a major pedagogical challenge to communicate the needs for such conditionalities to publics that have been encouraged to follow a welfare nationalist and a competitive corporatist ethos that encourage the displacement of externalities – such as surplus production and unequal exchange – onto one another and the rest of the world (Lessenich 2020; Cafruny & Ryner 2007). One very acute threat to the Recovery Plan is posed by an arch-neoliberal but nationalist group taking the Recovery Plan to the German Constitutional Court. In other words, in a second scenario, highly different from the one outlined by Bruegel, fragmentation and anarchic conflicts possibly threaten the very integrity of the EU.

A third scenario would represent a more genuine socio-ecological transformation. Similar to the first scenario, it would be based on deficit financing and debt mutualisation in the form of 'green bonds', issued by the European Investment Bank and guaranteed by the ECB. However, in this scenario finances would also rely on increased corporate taxes and it would repeal the European Semester conditionalities for accessing a revised RRF that would, in turn, be based on a Europe-wide public missionary investment programme (GNDE 2019; Euromemorandum 2020, 8–14; Pianta, Lucchese & Nascia 2020). In such a scenario actions would target environmental protection and the limiting of climate change impact through the promotion of sustainable transport systems, energy efficiency, renewable energy, sustainable agricultural production, and demilitarisation. Policies would strengthen high-quality universal public education, health care, and welfare systems, as well as support the expansion of ICT in ways that are in line with ILO's definition of 'good work'. Such an investment programme is estimated to require a total of €5 trillion and no less than €320 billion per year (Euromemorandum 2020). Promoting investment at the European, national, and local levels would provide the much-needed fiscal and industrial policy support to the ECB's monetary policy. But

to support fiscal and industrial policy fully, the mandate of the ECB needs revision. Furthermore, as lessons from the New Deal in the 1930s show, industrial policy must be based on transparency, strong political leadership, and grassroots participation in the allocation of the funds. This was crucial in overcoming vested interests and obstacles to implementation (Lehndorff 2019). Each member state would need a National Development Bank similar to the German Kreditanstalt für Wiederaufbau (a creature of the Marshall Plan). What is more, the EU Emissions Trading System should be replaced by a Europe-level carbon emissions tax, with governments buyback of emissions permissions as a transitory step.

This latter public investment scenario is not a very likely one. This is in part because of the aforementioned fragmentary tendencies in European publics and nationalisation of social conflicts that have been encouraged by the European Semester. It is also in part because of the historically weak power resources of progressive parties, unions, and civil society actors. Nevertheless, it offers a vision to help mobilize such social forces, not least the welfare capitalist constituencies in the regional hegemon of Germany. There may also be an opportunity to explore the contradictions entailed in the dialectic of commodification and socialisation and the potential legitimation problems associated with the European Semester relying on an unaccountable bureaucracy in the form of the European Commission. That opportunity is based on the premise that it will be difficult to contain the politicization of European economic governance to a technocratic exercise in a situation where the Recovery Plan has made it possible to issue EU-wide debt and fiscal capacity while at the same time it has marginalised the informal Eurogroup in favour of the Economic and Financial Affairs Council. In this context, it would be essential to actively propose a radical alternative to European economic governance in the upcoming review of the application of the Generalised Scheme of Preferences through the Two-Pack and the Six-Pack (Guttenberg, Hemker & Tordoir 2021). Indeed, one might, with the support of Michal Kalecki, contend that Keynesianism on a continental scale is the ultimate logical outcome of the German form of oligopolistic competition.

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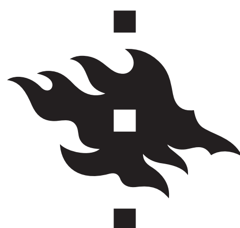

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Print Mill Oy, Loviisa, Finland 2021