

Austerity, not the populists, destroyed Europe's centre ground

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Financial Times, December 21, 2019

From Brexit to fiscal policy, the EU's largest member states have seen the mainstream wrongfooted

There were tell-tale signs early on. In 2009, Peer Steinbrück, a former German finance minister and later the Social Democrats' candidate for chancellor, introduced the constitutional balanced budget rule. This later gave rise to Germany's permanent fiscal surpluses and underinvestment in critical infrastructure. In a joint study, Germany's employers and trade unions recently put the investment shortfall at a staggering €450bn. So it is unsurprising that the SPD has lost political support during the years of its grand coalition with Angela Merkel's Christian Democrats.

In 2012, Italy's government of technocrats, led by Mario Monti, imposed procyclical austerity in the middle of a recession. The goal was to prove that Italy was a good follower of the eurozone's fiscal rules. The country has still not fully recovered from that shock. In 2014, François Hollande, the former French president, outed himself as a rightwing supply-sider when he cited Say's law — that supply creates its own demand. Since then his Socialist party has in effect disappeared as a political force, along with its old rivals on the centre right. In late 2015 in the UK, I overheard a group of pro-Remain politicians, academics and commentators persuading themselves that the easiest way to win the forthcoming Brexit referendum would be to scare the hell out of the electorate. We all know how that went.

What these disparate stories have in common is that they paint a picture of the decline of the political centre in Europe. I consider this, not the rise in populism, to be the main development in the EU's largest member states. If there was one common policy that accelerated that trend, it was austerity.

We have come to judge austerity mainly in terms of its economic impact. But it is the political fallout from public spending cuts that is most likely to persist. Austerity as a policy is the consequence of a poor understanding of economics coupled with a self-righteous mind and a tendency to spend too much time with your chums at places like Davos.

Centre ground politicians are also not good at admitting mistakes or changing strategy. The most tragic recent case of this inability to avoid repeating the same mistakes has been the repeated miscalculation of Remain campaigners in the UK. Just spare a moment for those centrist MPs in all parties who bet everything on the second referendum. They ended up with no job and a harder Brexit. Like a desperate gambler, they kept on betting on a low probability outcome and lost.

Doubling-down on successive grand coalitions also contributed to the undoing of the SPD in Germany. Martin Schulz, a former SPD chairman, promised that he would never agree to another grand coalition, only to cave in later. There is nothing a German Social Democrat fears more than being called politically or, even worse, fiscally irresponsible. But the party has since elected a new, apparently more radical leadership. If they had any sense, they would pull out of the grand coalition now, get rid of the old guard, and present an alternative agenda for the next decade. Judging by initial moves, I am not sure this will happen.

Parliamentary politics is a zero-sum game. Someone's loss is someone else's gain. In Germany, many of the younger, urban, SPD voters have gone to the Greens — the only non-extreme political party with the guts to criticise the toxic balanced budget rule, and to fight the car and carbon lobby. The Greens are the new radical centre of German politics. Some disillusioned SPD voters went the other way, to the far-right Alternative for Germany, but the AfD's impact remains limited to the east.

In France, the decline of the old centre parties gave rise to a new radical movement under President Emmanuel Macron. Some voters from the old centre-right and from the left moved over to Marine Le Pen's far-right National Rally. In Italy, meanwhile, the political centre has shifted firmly to the right. Forza Italia, the party of Silvio Berlusconi, has almost disappeared. The League is now the party to beat. The Democratic party, the main centre-left group, is also much weaker than it used to be. Fear of Matteo Salvini, leader of the League, is what holds the current coalition with the Five Star Movement together.

It would be complacent, but fully in line with centrist delusions, to blame the populists, or the Russians, for their decline. But the collapse of the centre is not a conspiracy. It is self-inflicted. In some countries, populists filled the vacuum. But not everywhere. Neither the Greens nor Mr Macron are populists. European liberalism has a long history of self-destruction. We are going through another such cycle. In view of the past, extraordinary decade, only a fool would want to predict what comes next. What remains is a sense of dread.