

# Germany: The bill... ..at the end of the year

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**The hot autumn did not happen. The government has spent a lot of money and a majority of the population is in favour of sanctions against Russia.**

Foreign countries are amazed: 295 billion euros against inflation plus 200 billion for the Federal Army - who is supposed to pay for that? The three relief packages of the federal government together cost 95 billion, the gas price brake 200 billion, not including 25 billion for the rescue of the gas importer Uniper (share purchase plus credit lines). However, the relief also includes a number of social policy measures that were planned by the government anyway, such as the citizen's income, the increase in child and housing benefits and others.

With the 200 billion for the gas price brake, the state subsidises private gas companies and thus relieves consumers. But it does not curtail the obscene profits these corporations make from the temporary gas shortage. At the lower end of the income scale, 3.7 million Hartz IV recipients are fobbed off with an extra 5 euros a month. Pensioners at least get a one-off payment of 300 euros. Those who are employed also receive only a one-time payment, while wages lag miles behind inflation.

Transparent manoeuvres, but effective: many people think inflation is a bad dream that will vanish after the winter. The one-off payments and relief on heating costs spread the feeling that the "solidarity contribution" for Ukraine is still halfway bearable - and that this contribution is necessary is not questioned.

The German government's Ukraine policy is supported by large parts of the population, despite its bellicose foreign minister. Otherwise the unrest in society would be much greater. The statistics portal Statista conducted a survey on 4 November, according to which 31 percent of respondents consider the sanctions against Russia to be appropriate, while 37 percent think they do not go far enough! Forty-one per cent of the respondents consider the German arms deliveries appropriate, 31 per cent consider them too far-reaching. After all, 55 percent criticise that the diplomatic efforts to end the war are not sufficient.

These figures show that the desire for a quick end to the war is growing. It will continue to grow as it becomes clearer that the war will not produce a clear outcome and that all sides will ultimately end up in a stalemate. The prevailing opinion believes that Putin must be shown limits, but rather economically than militarily, because the danger of an uncontrolled escalation is too great. Meanwhile, none other than NATO Secretary General Jens Stoltenberg says so. On 9 December, he warned in an interview on the Norwegian broadcaster NRK that the fighting could lead to a war between Russia and NATO: "If things go wrong, they can go terribly wrong."

Does the peace movement make itself untrustworthy, as variously claimed, when it pushes for a ceasefire and negotiations? Hardly. Both sides will have to say goodbye to maximum demands: Russia from saying that Ukraine cannot be a NATO member, Ukraine from restoring the state of 2013, including Crimea. However, the starting conditions for the peace movement are much worse

today than in the 1980s: First, it fell victim to a thaw in the 1990s, when the Cold War seemed to have ended. Today, however, it must once again assert itself against the harshest hostilities, comparable to those in the 1950s and 1960s, when it was once considered Moscow's fifth column. Anyone who advocates peace negotiations is shouted down as a Putinist - freedom of speech is the first casualty of war.

So far, the German government has successfully conveyed the image: Putin is to blame for inflation, but the government is helping out. The trade union leaders support this line by accepting wage cuts. For the better-off sections of the working class, these will only be felt with a delay. Large strike movements like in Britain are not to be expected.

But is Putin really responsible for the inflation? The rise in energy prices already started in April and May 2020, with few exceptions worldwide. It was initially a result of shortages when global trade flows were interrupted because of the pandemic. Then, prices rose rapidly from the beginning of 2021 because demand revived after the first wave of the pandemic. Energy prices got another boost in March 2022 with the Russian invasion of Ukraine. In Germany, they peaked in August and September when the closure of NordStream 1 was announced. Energy price inflation is accompanied by a spike in food prices because fertilisers and transport are also becoming more expensive.

Whether the upward trend in prices will continue is currently the subject of controversial debate among economists. The western central banks, above all the Federal Reserve in the USA, have reacted with sharp increases in the key interest rate, which makes borrowing rates much more expensive. Expensive money is supposed to counteract an overheating of the economy, according to their theory. But there is no question of an overheated economy at the moment. The energy price shock is due to the sudden shortage of oil and gas, which brought the speculators on the scene. The price can fall again just as quickly if the bottleneck is removed by boosting oil and gas production in other parts of the world. In fact, the price of gas has already fallen dramatically again, although not to pre-pandemic levels. What happens next with energy prices depends on the course of the war.

The climate catastrophe in the form of droughts, heat waves and floods also drives up prices. Even the move away from fossil fuels contributes. And then there is the very ordinary, home-made inflation due to economic development. In the ["Atlas of the World Economy"](#) edited amongst others by the reknowned Keynesian economist Heiner Flassbeck, the authors exclude the price increases for energy and food from the general inflation rate. What remains is core inflation, which is not induced by external shocks. It amounts to 5 per cent (from 9 per cent) in the USA and 4.5 per cent (from 8 per cent) in the UK. The difference is even greater in Germany and the Eurozone, where core inflation is only 2 to 3 per cent (from around 10 per cent).

However, the European Central Bank does not want to go its own way, but to adjust its key interest rate to that of the Fed and the Bank of England. This makes loans more expensive, especially for small and micro enterprises, which have already been hit hardest by the pandemic and its economic consequences. The interest rate hike will hurt them, despite the consolation measures of the federal government.

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