



## The world in disorder

Exclusive report for ACATIS Investment: Prof. Dr. Dr. h.c. Lars P. Feld, University Freiburg and Walter Eucken Institute

The West appears to be ailing. The French government under Prime Minister Barnier was brought down by the extreme right-wing and left-wing parties in the National Assembly. Following the premature end of Germany's coalition government, Bundestag elections will be held on 23 February 2025. Belgium does not even have a government, as forming one is proving to be difficult. And while the Netherlands has a government, it is fragile due to the majority constellations in Parliament and the antics of Geert Wilders. In Austria, Chancellor Nehammer of the People's Party (ÖVP), which emerged as the clear loser of the Nationalrat elections in September, is attempting to form a coalition with the Socialist Party (SPÖ) and the Neos party against the winner of the election, the Freedom Party (FPÖ). In Romania, the first round of voting in the presidential elections was annulled due to a hybrid Russian attack; the pro-Russian presidential candidate was leading the race. South Korea is also undergoing a turbulent period, after President Yoon declared martial law for a few hours. Italy has one of the most stable governments in the EU.

The situation in the US also appears to be stable. It is rare to see landslide victories such as the one achieved by Donald Trump; and it is not often that a President had such a large majority in Congress and also had the majority of judges on the Supreme Court on his side. At the same time, the US under Donald Trump does not offer the customary kind of stability, as he has threatened partner countries in Europe that the US will leave NATO if they do not live up to their financial obligations. He also announced significant tariffs, first against China, Canada and Mexico; the threat of tariffs against Europe will probably follow sooner rather than later.

And it is primarily the Chinese-Russian axis with its allies Iran and North Korea that is encouraging the aforementioned instabilities, or is at least benefiting from the situation. Because of insufficient assistance from the West, Ukraine is finding it difficult to stop the Russian advance. One bright spot is the weakening of Iran in light of Israel's war against Hamas in the Gaza Strip, Hezbollah in Lebanon and the targeted aerial attacks against Iranian military installations in Syria and Iran. The surprising victory of Islamic forces in Syria against the Assad regime also weakens Iran, although the consequences of this victory cannot be assessed at this time.

At the same time, the political instability seen in the democratic West is not just due to the destabilisation caused by Russia and China, but also due to a multitude of home-made problems. The French government quickly fell due to the failure of its proposed budget for

the year 2025. France is finding it difficult to transition its fiscal behaviour from the COVID-19 era towards something approaching normal. The German government also broke apart because of a dispute over the budget. The same type of dispute triggered the imposition of martial law in South Korea. And Biden's excessively expansive fiscal policies have driven up inflation, which was a major factor behind Donald Trump's victory.

And there is no improvement in sight, at least when it comes to fiscal policy. Donald Trump has announced a strongly supply-side programme. Corporate taxes would be reduced to 15 percent, and the - originally temporary - income tax reductions are supposed to become permanent. It can be expected that this will only exacerbate the already high US government debt - despite the announced end of the Inflation Reduction Act and increased tariffs. Ultimately, the US is moving towards an enormous twin deficit.

France and Italy are struggling to comply with the budgetary requirements under the new EU fiscal rules. The same applies to other countries, not least Germany. Against this background, the recommendations to ease the debt brake (Schuldenbremse) as put forward by the European Commission and international organizations seems almost anachronistic.

What to do? It is high time that Europeans meet their obligations in terms of defence policy and defensive capacity. The fact that the US (since Obama) has repeatedly complained about this, especially with respect to Germany, should be understood as a cry for help; because the economic and military power of the US is no longer sufficient to fulfil its role as the world's policeman. This would pave the way for a deal with the US, which would avoid tariffs or at least make them more tolerable. In light of the budgetary problems faced by almost every country, higher defence expenditures must be financed by budgetary rebalancing rather than more debt. It will be a Herculean task.

Sincerely yours

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