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Championing the 'German model'? Germany's consistent preferences on the integration of fiscal constraints

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ABSTRACT

This article traces whether and how Germany's preferences on the integration of fiscal constraints have evolved since the founding of the Economic and Monetary Union (EMU). Focusing on state elites and mass publics as driving forces of government preferences, the article also examines what has shaped German preferences since the Treaty of Maastricht. The article finds that elites welcomed the benefits of a single currency but feared the risks of high inflation and liability for other countries. Moreover, public scepticism about the euro translated into a 'constraining dissensus' regarding capacity-building in EMU. In line with these concerns, the German government sought to integrate fiscal constraints while leaving budgetary capacities at the national level. Thus, Germany adopted an instrumental approach to secure the success of the 'German model'. While Germany's preferences have remained largely the same since the founding of EMU, the strategies to realize them have changed over the years.

KEYWORDS

Economic and Monetary Union; Germany; eurozone governance; fiscal rules; core state powers

Introduction

The Economic and Monetary Union (EMU) started with a compromise. Germany conceded to France and Italy a fixed starting date for the introduction of the single currency. In exchange, strict fiscal constraints should regulate access to monetary union and limit the risks for 'hard currency' countries (Chang 2016, 17). This compromise characterized not only the nature of EMU but also the preferences of its largest member. Germany's support for a common currency was accompanied by strong preferences for the integration of fiscal constraints. However, research on core state powers tells us that governments should be wary of integrating policies that touch upon key resources of state sovereignty, such as fiscal policy. Therefore, this article asks: How have Germany's preferences on the integration of fiscal constraints evolved since the foundation of EMU, and what are their underlying driving forces?

Based on the conceptual framework of core state power integration (Freudlsperger and Jachtenfuchs 2021), we trace Germany's preferences on the integration of fiscal constraints[1] since the Treaty of Maastricht, thereby considering both elite preferences

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and public opinion as possible driving forces. We argue that material externalities of the single currency in the form of financial liability and inflation risks prompted the officials in the German Finance Ministry and the central bank (*Bundesbank*) to push for the integration of fiscal constraints. In addition, public scepticism about the introduction of the single currency translated into a 'constraining dissensus' regarding capacity-building in EMU (Howarth and Schild 2021). Confronted with potentially costly externalities of the single currency and high audience costs of capacity-building, the German government aimed at supranational control (fiscal rules) of national capacities (budgets) to secure the success of the 'German model'. While these preferences have remained constant, Germany's strategies changed over time.[2] Thus, Germany watered down compliance with the fiscal rules during its years as the 'sick man of Europe', increasingly relied on intergovernmental arrangements in eurozone crisis management, and returned to a more supranational approach with the outbreak of the Corona crisis.

The existing explanations for Germany's approach to fiscal policy in EMU vary greatly. They can roughly be distinguished into an idea-based and an interest-based strand of literature. The first strand explains Germany's preferences and actions in EMU with reference to 'ordoliberalism' (e.g. Matthijs 2016; Nedergaard and Snaith 2015; Schäfer 2016). This economic school of thought has a long tradition in Germany that dates back to the 1920s. To reach the primary goal of economic and monetary stability, ordoliberalism puts emphasis on the principle of liability (*Haftungsprinzip)* and the avoidance of moral hazard. Adherents of the ordoliberal explanation therefore argue that Germany's rule-based and fiscally conservative stance in EMU is motivated by ordoliberal ideas – even if these ideas contradict Germany's economic interests (Matthijs 2016). By contrast, a second group of scholars argues that Germany, as a former hard-currency economy based on supply-side policies and internal devaluation, is structurally advantaged by a monetary union that does not allow for compensation mechanisms through monetary financing, fiscal transfers or debt mutualization (e.g. Jacoby 2015; Scharpf 2018; Schoeller 2019). Maintaining a single currency that relies on internal devaluation is thus in Germany's material interest, even when this does not correspond to ordoliberal principles (Schoeller 2020b, 321). In light of its empirical findings and the central argument of this special issue (Freudlsperger and Jachtenfuchs 2021), this article positions itself in the interest-based strand of literature: Germany's preferences and varying strategies reflect its national (economic) interest rather than consistent ordoliberal principles.

Regarding its theoretical contribution, the article adds to research on the integration of core state powers (Genschel and Jachtenfuchs 2014, 2016). By focusing on elite preferences and public opinion, the article investigates the factors causing or constituting a state's preferences regarding the integration of core state powers. At an empirical level, there has been research dealing with Germany's preferences in shaping and enforcing fiscal rules in different phases of EMU's institutional evolution (e.g. Degner and Leuffen 2019; Howarth and Rommerskirchen 2013; Kaltenthaler 2002). However, we still miss a long-term account that systematically takes into account both state elites and public opinion. In providing such an account, the article helps gauging Germany's evolving role in EMU (e.g. Donnelly 2018; Schoeller 2019) and in the European Union (EU) (e.g. Bulmer and Paterson 2019).

After presenting its research design, the article starts out by examining the preferences of German state elites since the Treaty of Maastricht. In a second step, it analyses the evolution of public opinion. The third step brings the two factors together by assessing and explaining the federal government's preferences. In doing so, the article evaluates the special issue's explanatory framework with regard to the integration of fiscal constraints. An additional section assesses the extent to which the article's argument applies to the most recent developments in the Corona crisis. The conclusion summarizes the findings and reflects on the implications with regard to Germany's role in EMU and in comparison to other member states.

Research design

The research design of this article follows the theoretical framework outlined in the introduction to this special issue, which expects governmental preferences on the integration of core state powers to be shaped by elite preferences and mass publics (Freudlsperger and Jachtenfuchs 2021). While the government consists of elected politicians who make authoritative decisions, state elites are understood as non-elected officials in relevant ministries and institutions that have their own 'bureaucratic rationality'. Given their administrative capacity and expertise, they can be an exogenous factor shaping governmental preferences. The same is true for mass publics, whose opinion is relevant for the re-election of politicians. When analysing public opinion, we also consider party affiliation, but we do not treat parties as an independent driver of government preferences (details below). The propositions outlined by Freudlsperger and Jachtenfuchs (2021) allow us to derive a hypothesis on each of the three actors and their preferences:

(1) State elites: If strong externalities of sectoral integration in a related field require further integrational steps, state elites prefer the integration of regulation to supranational capacity-building, which diminishes their own competences. Only if the costs of regulation are prohibitively high, they support the integration of capacities.
(2) Public opinion: While mass publics support the integration of core state powers under certain circumstances (specified by Freudlsperger and Jachtenfuchs 2021), they oppose supranational capacity building if they expect welfare losses or hold a desire for national self-rule ('constraining dissensus').
(3) Government: Governments hold a default preference for full member-state sovereignty (no integration of core state powers). If state elites perceive strong externalities of existing integration, but mass publics are concerned about national identity/self-rule or welfare losses ('constraining dissensus'), governments prefer the integration of regulation (supranational control over national capacities) over supranational capacity-building. Only if regulation is insufficient to neutralize negative externalities and mass publics form a 'permissive consensus', there will be positive state-building (= integration of regulation *and* capacities).

These hypotheses allow us to probe the plausibility of the special issue's theoretical framework regarding Germany's preferences on the integration of fiscal regulation. We will trace elite preferences and public opinion since the Treaty of Maastricht and check whether they are congruent with the hypothesized governmental preferences. To this end, we will analyse whether and how the preferences of the German government have evolved and how it has pursued them from the founding of EMU to the present Corona crisis.

In doing so, we will refer to four distinct phases since Maastricht. The first phase, which is shaped by discussions on the institutional design of EMU, starts with the negotiations in 1992 and ends with the (physical) introduction of the euro in 2002. The second phase stretches from 2002 to 2008 and covers the initial experiences of the single currency and Germany's non-adherence to the Stability and Growth Pact (SGP). The third phase from 2008 until 2019 is devoted to the eurozone crisis and post-crisis reform. Lastly, the fourth phase commences with the outbreak of the Corona pandemic and is centered around the recovery measures and Germany's role therein. Dividing the almost 30 years since Maastricht into different phases with distinct characteristics (or key events) allows for a systematic and comprehensive discussion of the entire time period, in line with the overall ambition of this special issue. Each of these four phases will be covered by relevant data on elite preferences, public opinion, and governmental preferences.

In tracing the preferences of German state elites, we will rely on first-hand accounts by former German officials, interview summaries of the EMU Choices Dataset, own interview material and secondary literature. In order to trace the preferences of German mass publics, we will draw primarily on public opinion data. Tracking changes over time is made possible by the bi-annual Standard Eurobarometer (EB), whereas EB 'Flash' and 'Special' surveys allow for in-depth data on topical issues.[3] Furthermore, we will incorporate data from the 'Politbarometer'[4] conducted by *Forschungsgruppe Wahlen*, which provides information on specific issues particularly salient in Germany (see online appendix). When analyzing this data, we will incorporate inter-group dynamics by comparing results along the lines of party affiliation. This shall give us a more fine-grained understanding of German mass publics (see Freudlsperger and Weinrich 2021). However, given the large consensus in public opinion regarding the integration of fiscal policy as well as the complex and multi-faceted dynamics behind party politics, we will not treat parties as an independent explanatory factor.

Elite preferences

This section traces the preferences of German state elites regarding the integration of fiscal constraints from the creation of EMU to the present day. It argues that the externalities of a single currency, which came in form of high inflation risks and financial liability for other member states, prompted the officials in the Finance Ministry and the German *Bundesbank* to push for the integration of fiscal rules while keeping the control over budgetary capacities at the national level. As Germany's economic model has benefitted greatly from the resulting institutional design of EMU, the integration of strict fiscal constraints has remained a core concern of German elites.

Among German state elites, two groups in particular have been influential in shaping and governing EMU. First, the responsible officials in the Finance Ministry have been in favour of monetary union but promoted the integration of strict fiscal constraints to avoid assuming liability for other member states. Second, the more sceptical officials of the *Bundesbank* have portrayed binding budgetary rules as a *sine qua non* for EMU to guarantee 'monetary dominance' and price stability. Both groups warned that without such rules, Germany would risk 'importing inflation' through the common currency

(Kaltenthaler 2002, 75). More precisely, they argued that 'excessive national deficits would have external effects fuelling inflation in the eurozone, which would either induce the ECB to weaken its commitment to price stability or force it to respond with massive monetary retrenchment' (Scharpf 2018, 35). An equally undesirable consequence, from a German perspective, would be state-to-state bailouts or the mutualisation of debt.

While the pro-European elites in the Finance Ministry had no interest in giving up their competences over the national budget, they were well aware that common rules providing for clear spending limits were of crucial importance to the national interest. Recalling the drafting of a German position paper from 4 January 1991, then Under-Secretary of State Horst Köhler identified the integration of fiscal rules as one of the key points: 'Budgetary discipline is central to economic and monetary union. Therefore, all member states must be obliged to avoid excessive budget deficits'[5] (Köhler and Kees 1996, 165). When describing the resulting German position in the negotiations on the creation of EMU, Köhler explained: 'Accordingly we proposed: No deficits to be financed with the money printing press, no bail-out for the debts of member states, measurable criteria for determining an 'excessive deficit', ensuring the reduction of excessive deficits even with the help of sanctions'[6] (Köhler and Kees 1996, 170).

Few years later, the *Bundesbank* urged German Finance Minister Theo Waigel to promote a 'Stability Pact' (later Stability and Growth Pact) for EMU (Schlosser 2019, 49). Indeed, *Bundesbank* President Tietmeyer and the Central Bank Council were the first to demand supranational legislation to control fiscal policies (Hoekstra et al. 2007, 14). The German central bank not only feared that EMU would be less stable than the German regime with its primary focus on price stability but also distrusted the budgetary discipline of other member states. Given its excellent reputation in the German public and its important advisory role at the national and European level, the *Bundesbank* was an informal veto player in the adoption of EMU (Heipertz and Verdun 2004). Hence, without a binding agreement on strict fiscal rules at the European level, the German government would not have won the *Bundesbank*'s approval for EMU (Waigel 2019, 237).

The discussion about the need for European regulation of fiscal policies intensified among German state elites in 1995 (phase 1). Not only the *Bundesbank* but also the Kiel 'Institute for the World Economy' (*Institut für Weltwirtschaft*) and the *Sachverständigenrat*, an expert advisory board to the German government, contributed to the salience of the topic. This, in combination with negative public opinion, put pressure on Chancellor Kohl and Finance Minister Waigel to act. In November 1995, Waigel proposed the 'Stability Pact' (Heipertz and Verdun 2004). This codification of fiscal constraints demanded by the *Bundesbank* and other domestic actors had the backing of the officials in the Finance Ministry, who also considered public opinion. As Gert Haller, a leading official in the Finance Ministry and an outspoken proponent of EMU, wrote in 1996:

> 'The real problem is government budgets, not monetary policy. … Each of the member states must, if necessary at a sacrifice, put its public finances in order. … Politicians are well advised to take the fears of the people seriously and point out repeatedly that nobody is thinking about sacrificing the D-Mark and monetary stability on the altar of European integration.'[7] (Haller 1996, pp. 95-97).

When in 2009/10 the eurozone went into crisis nevertheless, the same pattern recurred (phase 3). The priority of German elites was not the creation of central capacities to fight the crisis, but the enhancement of fiscal constraints. As a top official in the Finance Ministry explained in an interview conducted by the authors, strengthening fiscal surveillance was one of the four major pillars of the German strategy in reforming EMU (next to 'incentive-compatible' safety-net mechanisms, enhancement of competitiveness, and better regulation of financial markets). However, from the perspective of German elites, the attempt to step up fiscal surveillance was only partially successful and the results unsatisfactory. In particular, the officials in the Finance Ministry wanted the European Commission to play a more active role in promoting strict fiscal rules and enforcement (Interview BMF 2015). The interview summaries of the EMU Formation Dataset[8] confirm how German government officials strove to put down stricter rules in order to reinforce fiscal discipline in the eurozone. The *Bundesbank* echoed these calls for enhanced fiscal constraints. Just as in the 1990s, the central bank urged the government 'to restore a "stability culture" in EMU through "harder rules"' (Schlosser 2019, 49).

Our first hypothesis conjectures that if a given field is marked by strong externalities, state elites prefer regulatory approaches over capacity-building. Our analysis of German elite preferences since Maastricht corroborates this conjecture. The officials in the Finance Ministry welcomed a single currency. However, they also anticipated the externalities of monetary integration, which came in form of monetary (price stability) and financial risks (liability for other member states). Maintaining the *status quo* (full member state sovereignty) was therefore not a viable option, whereas capacity-building at the supranational level would not only deprive the Treasury officials of their budgetary competences, but even exacerbate the liability problem. The integration of fiscal constraints, by contrast, did not imply a significant loss of competences for the Finance Ministry, as the German model was already built on fiscal restraint. As Freudlsperger and Weinrich (2021) show, the preferences of the German state elites were backed by a majority among the Bundestag parties, which largely prefer integration through regulation over capacity-building.

While the strong externalities of European monetary integration are theoretically sufficient to explain German elite preferences for supranational fiscal constraints, a comprehensive empirical explanation needs to consider the role of the 'German model', too. Combining the single currency with strict fiscal constraints allowed Germany to upload its export-led growth model (implying monetary dominance, low inflation and wage restraint) to EMU, which in turn 'rewarded' Germany with a persistent export surplus at the cost of formerly demand-led economies in the south of the eurozone (Scharpf 2018, Ch., 5). In addition to the adjustment efforts of so-called 'debtor countries' in the eurozone, Germany profits from a *de facto* under-valuation of the euro as compared to a (hypothetical) national currency. Moreover, while the value of a German currency would rise with an increase in exports, thereby naturally capping exports surpluses, the euro maintains its value and thereby keeps prices for German exports permanently low. As former Finance Minister Waigel states in retrospect: 'We have implemented our German stability culture in the European monetary policy'[9] (2019, 244).

Hence, defending the integration of fiscal constraints means defending the German economic success model. German elites have been well aware of these circumstances. Wilhelm Vocke, then President of the *Bank deutscher Länder* – predecessor of the *Bundesbank* – stated already in 1951: 'we depend on increasing exports, and these depend on maintaining relatively low price and wage levels … In other words, keeping prices below levels abroad is the crucial point of our efforts at the central bank' (cited in Scharpf 2018, 5). This focus on low inflation and export-led growth became a core feature of the German model deeply entrenched in the awareness of political and economic elites (Bulmer 2014, 1247).

Public opinion

Already in the initial phase of EMU (phase 1), it was clear to the federal government that the German public would not accept the replacement of the *D-mark* with a European currency unless strict fiscal constraints were put in place (Heipertz and Verdun 2004, p. 768; Howarth and Rommerskirchen 2013, p. 752; Waigel 1996, 12). In the words of then German finance minister Theo Waigel:

> 'The stability pact was absolutely necessary. Without such a binding agreement we could not win the support of the Bundesbank in the initial phase of the monetary union, nor that of the citizens for this project.'[10] (2019, 237).

Throughout the 1990s and well into the 2000s, public opinion in Germany remained sceptical of the common currency (figure 1, online appendix), and support fluctuated at levels significantly below the eurozone average (Gros and Roth 2011; Howarth and Schild 2021). For instance, in 2002 Germans proved less happy with the new currency than any other eurozone population (European Commission 2002), and until 2009 the share of Germans viewing the euro as a good thing fell short of the average (figure 2, online appendix). The primary fears were price instability (Howarth and Rommerskirchen 2013, 753) and having to assume liability for the finances other countries. In fact, Politbarometer data from 1996/97 shows that less than 20% of respondents thought the common currency would be as stable as the D-mark, and even after the euro introduction, Germans had distinctly less trust in its stability than the eurozone average (European Commission 2000, 2003). This scepticism translated into a preference for fiscal constraints as a way to ensure stability and control risks connected to the euro (Heipertz and Verdun 2004, p. 768; Waigel 1996, 12).

Importantly, the initial fondness for the SGP was not expressed when it was Germany that violated the rules in the beginning of the new century (phase 2). For instance, in 2003, net support for the SGP was substantially lower in Germany than the eurozone average (38% vs. 53%). To be sure, the issue was contested, and the results vary strongly depending on party affiliation along the left-right axis, but even among CDU/CSU voters only around 50% insisted on the strict application of rules at that time (Tables 1, 2, 3, 4 in online appendix). The fact that the SGP was initially a concession to the reluctant German public is thus not necessarily mirrored in this data, which instead rather points to an instrumental approach towards fiscal rules.

With the outbreak of the eurozone crisis and throughout post-crisis reform (phase 3), new trends are discernible. An increasing share of Germans start viewing the euro as advantageous, and in 2017 even 76% of respondents take this position, a number well above the eurozone average (figure 2, online appendix). At the same time, mass publics harden their preference for fiscal constraints, even in the face of crisis. While financial support such as loans (Politbarometer 2010 March II; 2011 June; 2012 November II;

2015 August), beefing up the ESM (2011 September I; 2012 January II) or committing to Eurobonds (2011 November II; 2012 May; figure 3 online appendix) is vehemently opposed, we find strong support for further fiscal constraints. The Fiscal Compact (2012 September I) received majority backing, and in 2011 a staggering 91% approved of stricter European scrutiny of national deficit levels (December). In 2011, 78% of Germans even wanted to see the inclusion of EU institutions in the drafting of national budgets, compared to the average of 67% (European Parliament 2011). In particular, we observe a pronounced lack of trust in the Greek government's commitment to fiscal restraint (2012 February; 2015 March I).

Our second hypothesis postulates that even if mass publics accept the integration of core state powers, they oppose capacity-building (and thus support the supranational regulation of national capacities) if they expect economic disadvantages or the loss of national self-rule. Our analysis of public opinion partially corroborates this conjecture with regard to the welfare losses. Large portions of German mass publics supported the integration of strict fiscal constraints as they feared that Germany would become liable for the issuance of excessive debt in other countries. Fiscal rules were thus seen as a guarantee of avoiding the build-up of common fiscal capacities. At the same time, we observe that the German public has had an instrumental relationship with EU-level fiscal constraints, seen most clearly in the discrepancies between how transgressions are perceived depending on who commits them. During Germany's years as the 'sick man of Europe' the SGP was not met with unconditional support, but when the southern member states got in trouble during the eurozone crisis, calls for the integration of fiscal constraints again became louder.

Government preferences

While the preceding sections investigate the two explanatory factors, this section focuses on German government preferences as the *explanandum* of the analysis. Starting from the Treaty of Maastricht, the section first describes Germany's preferences before applying and evaluating the explanatory framework of this special issue. We find that the German government strives for supranational control of national capacities to avoid financial liability for other countries and secure the success of the 'German model'. Its preferences for integrating strict fiscal rules are therefore in line with elite preferences and public opinion. However, whereas Germany's preferences are stable, its strategies to pursue them vary over time.

Already during the negotiations leading to the creation of EMU, the German government advocated a rule-based approach (phase 1). Based on a legalistic understanding of politics, Germany thus wanted to minimize the freedom of manoeuvre for other member states (Dyson and Featherstone 1999, 282–3). Accordingly, the federal government's primary goal in shaping EMU was economic convergence based on binding criteria to avoid excessive deficits in the eurozone (Waigel 2019, 224). When in the mid-1990s several member states faced troubles meeting these convergence criteria, Waigel's then Under-Secretary of State Jürgen Stark stressed the rigidity of the German position: 'A softening of the convergence criteria is out of the question for the Federal Government. … From the very beginning, the Federal Government has therefore made it clear in all EU bodies that it uncompromisingly insists on compliance with the criteria'[11]

(Stark 1996, 286). The mistrust regarding the fiscal discipline of other governments and the scepticism of the German public about a single currency finally led the German government to push for the SGP (Heipertz and Verdun 2004; Waigel 2019, 237).

While the German government has been in favour of integrating fiscal constraints, its own compliance with these rules was instrumental and dominated by material interests. This can be seen most clearly in the first decade of the 2000s (phase 2) when the restrictive monetary policy of the ECB contributed to Germany's economic status as the 'sick man of Europe' (Scharpf 2018). In this situation, the German government not only violated the same SGP that it initiated some years earlier but also argued for mitigating the rules in order to allow for *more* fiscal flexibility (Chang 2006). By contrast, during the eurozone crisis (phase 3), in which Germany profited from its superior competitiveness, an influx of capital and skilled labour, and even negative interest rates on sovereign bonds, it once again became an outspoken champion of fiscal restraint (Howarth and Rommerskirchen 2013; Jacoby 2015; Schild 2020). As a recurrent pattern in eurozone crisis management, the German government thus agreed to capacity-building only when there was no other way to preserve the single currency, whereas it provided forceful leadership in the institutionalization of fiscal discipline (Schoeller 2020b).

Hence, applying the conceptual terms of this special issue, Germany's preferred form of fiscal policy integration has been the 'supranational control of national capacities'. In the research design section, we hypothesize that this outcome occurs if state elites fear the costly externalities of integration and mass publics are concerned about the loss of economic welfare or national self-rule. German elites feared the negative externalities of monetary union indeed, since in the absence of strict fiscal rules the single currency could become very costly for Germany. In particular, the excessive issuance of national debt in other member states could lead to price instability and the mutualisation of debt. Moreover, the German public largely opposed the introduction of the euro because of welfare concerns and thus 'constrained' its government to shield taxpayers' money from high inflation and liabilities through the integration of fiscal rules. As a result, high audience costs have shaped German positions on EMU since its beginning: 'Kohl … understood that the German public fiercely opposed giving up the deutschmark. Hence, he endlessly reassured Germans that they would not pay to bail out other countries using the single currency' (Mody 2018, p. 10; also Scharpf 2018, pp. 27, 35). Accordingly, the SGP was an attempt to reduce the audience costs related to monetary union (Heipertz and Verdun 2004, p. 768; Kaltenthaler 2002, 82). However, the 'constraining dissensus' did not disappear with the SGP and the actual introduction of the euro. During eurozone crisis management, public opinion once again limited the German government's room for manoeuvre in finding common solutions at the European level (Bulmer 2014, p. 1245; Degner and Leuffen 2019).

While we find the theoretical expectations largely corroborated, our analysis points to additional insights. First, avoiding liability is not the only reason for German elites to insist on the integration of fiscal constraints. Given that the institutional set-up of EMU has proven to be a perfect environment for the '*German model*' based on wage restraint, low inflation and export-oriented growth, Germany's preferences in favour of fiscal constraints (and thus of internal devaluation) are also motivated by the benefits for the German economy. These benefits granted by EMU's institutional design are important to understand the remarkable continuity of German preferences. Already when shaping the monetary union, the federal government was aware that the German model profits most in an institutional environment of fiscal restraint and national adjustment. As the German Finance Minister anticipated in 1996:

> 'In fact, tensions can arise if the integrated monetary policy is not followed by the national economic, financial and wage policies. Countries in which the social partners allow themselves extensive wage increases even after the common currency has been established, for example, can be sure to be punished with massive unemployment. … Countries affected by such self-inflicted maldevelopments must not, however, rely on the large, supposedly financially strong community to help them out of their difficulties'[12] (Waigel 1996, 17).

A second qualification regards the concept of '*constraining dissensus*' and *causal inference*. Although the German public has always opposed capacity-building in EMU, the German government was never truly constrained, since it had no interest in building extensive capacities anyway and – once the integration of monetary policy was decided – preferences of elites, public and government regarding fiscal constraints were aligned. As our above analysis shows, both German elites and the public have been concerned about the assumption of liability for other eurozone countries and therefore shared preferences in favour of integrating fiscal constraints. Hence, we should be careful when it comes to causal inference. Rather than public demands being the cause of governmental preferences (see Degner and Leuffen 2019), our analysis suggests that both public and governmental preferences are the effect of a common antecedent variable, which is the national economic interest. If this is true, the German government acted *in line with* – but not *in response to* – elite preferences and public opinion. This interpretation is corroborated by statements of then Finance Minister Waigel. While he acknowledges the importance of a consent by the *Bundesbank* (elite preferences) and the 'citizens' (public opinion), he emphasizes repeatedly that by pushing for strict fiscal rules, he ultimately pursued the national interest: '*In the interest of Germany*, I advocated strict discipline in fiscal policy'[13] (Waigel 2019, p. 220, own italics).

Third, while we observe a remarkable continuity in German *preferences*, we find notable changes in the choice of *strategy* to realize these preferences. Zaun and Ripoll Servent (2021) find a similar pattern regarding EU asylum policy, where German governments have consistently pursued their 'national interest' by using varying means. In the first decade of EMU, the German government relied on supranational solutions to establish fiscal restraint in EMU: EU law was the legal basis of choice and the Commission was responsible for monitoring and enforcing the rules. During its years as the 'sick man of Europe', when Germany needed fiscal leeway to enact structural reforms, it pushed for a mitigation of these supranational constraints. With the eurozone crisis, Germany returned to advocating strict fiscal rules. This time, however, the German government considered intergovernmental solutions in addition to the existing supranational arrangements. Thus, it promoted the Fiscal Compact as an alternative legal basis to enshrine budgetary rules into national (constitutional) law[14] and it championed the ESM[15] as an intergovernmental actor to monitor and enforce EMU's fiscal rules next to the supranational Commission. Hence, rather than mere supranational control of national capacities, the German government envisaged 'an intergovernmental deepening of the EU with a strong technocratic component' (Seikel and Truger 2019, 7). The reason for this change in strategy was the grown mistrust of the Commission as enforcer of the rules. As a leading official in the German Finance Ministry explained in an interview conducted by the authors, from a German perspective the Commission had cut an extremely weak figure in eurozone crisis management: due to its hesitant and soft stance, crisis management had been mainly intergovernmental and, with a view to strengthening fiscal rules in EMU, had led to unsatisfactory results (Interview BMF 2015).

Most recently, the Corona pandemic has led to another shift in the German strategy as the federal government joined France in committing to substantive fiscal capacity-building (Howarth and Schild 2021) without demanding a concomitant set of new rules or conditionality.

Corona crisis: change of preferences or adjustment of strategy?

The Corona crisis seems to have changed Germany's attitude on fiscal regulation (phase 4). In contrast to the strict rule-based approach that characterised Berlin's actions in the eurozone crisis and its aftermath, the German government has proven willing to allow massive fiscal expansion both at home and abroad. Finance Minister Scholz welcomed the suspension of the SGP to give member states more room for manoeuvre (Bundesministerium der Finanzen 2020a), and the disciplinary function of fiscal constraints has lost legitimacy for the time being (Bundesministerium der Finanzen 2020b). Moreover, it is striking how inconspicuously the German government behaved when negotiating the allocation and spending rules of the Corona recovery package ('Next Generation EU'). This time the Netherlands took on the role of the most vocal advocate for fiscal discipline (and Austria together with the Scandinavian member states soon followed suit; see Conclusions).

In line with this article's argument, Germany's apparent 'U-turn' needs to be assessed against the background of the 'German model', which is highly dependent on exports and could not survive in a scenario where German products fail to find foreign buyers. From March 2020, awareness grew among German elites that the Corona crisis could lead to such a situation. For example, the influential *Institut für Wirtschaftsforschung* (ifo) reported a deteriorating outlook among German exporters (2020a, 2020b), whose fears were acknowledged by the Finance Ministry when Germany actually saw huge decreases in exports (Bundesministerium der Finanzen 2020c). At the time, the Association of the Automotive Industry (VDA), for example, noted a decrease of over 90% in both production and export of cars, compared to 2019. Combined with increasing duress on the labour market and grim revisions of economic forecasts, German elites came to view the crisis as an even bigger threat to the economy than the 2009 financial crisis. Scholz therefore welcomed the suspension of the SGP and quickly enacted what he called a fiscal 'bazooka' to stabilize the economy.

With regard to public opinion, the suspension of the SGP was not widely discussed in German media and never rose to a major topic among mass publics. Nevertheless, recent public opinion data show that the well-established preferences for strict fiscal rules have not disappeared. Germans prove unenthusiastic about the flexibilization of EU budgetary rules and only 13% think of this as a priority to fight the crisis, which is the lowest share among all EU countries (European Parliament 2020). These findings are in line with recent Eurobarometer data, showing that Germans are less inclined to support the idea that member states should be enabled to boost their own economies (including via state aid), compared to their counterparts in other European countries (European Commission 2020). Where necessary, direct financial assistance is more readily welcomed than both the relaxation of budgetary rules and the introduction of Coronabonds (Koos and Leuffen 2020). In other words, Germans' mistrust in other member states regarding long-term financial responsibility is unchanged. While financial solidarity has in some surveys received surprising levels of support among Germans, measures concerning fiscal constraints that go beyond temporary and limited actions are still marked by a high degree of scepticism. We can therefore not infer from the available data that public preferences have changed.

Moreover, when drawing inferences regarding this latest episode of fiscal integration, we should be aware of the limitations of the public opinion data available. First, the questions which the respondents engage with are directly related to the crisis, rather than fiscal integration as such. Second, the results differ quite substantially between surveys, which most likely has to do with discrepancies in survey design and a limited understanding of the issues discussed on the side of the respondents. For instance, we find Politbarometer data suggesting relatively high support for joint debt incurrence to overcome the crisis (2020 July II), while Coronabonds are at the same time vehemently opposed.

In summary, we consider Germany's alleged U-turn in the Corona crisis as a recalibration of strategy against the backdrop of drastically changing material circumstances. The combined measures are specific to the crisis, with a clear expiration date and limited scope, and have domestically been justified with reference to Germany's self-interest as an export-economy. Regarding mass publics, we see a larger acceptance than usual for European burden-sharing, which is characteristic for solidarity measures in non-self-inflicted situations like natural disasters (Bremer, Genschel, and Jachtenfuchs 2020), but at the same time established patterns of scepticism remain and are likely to survive the crisis. Based on this special issue's theoretical framework, we therefore consider the government's willingness to temporarily depart from its previous stance as a consequence of soaring *status quo* costs and a concurrent decrease in audience costs. In the words of Freudlsperger and Jachtenfuchs (2021), the costs of maintaining the *status quo* in the face of an immediate threat came to outweigh the costs of change. Hence, we agree with Howarth and Schild (2021) that Corona crisis management does not indicate a crucial change of German preferences.

Conclusion

Germany's support for a common currency has always been accompanied by strong preferences for the integration of fiscal constraints. While the officials in the German finance ministry acknowledged the economic benefits of a common currency early on, both state elites and mass publics have been concerned about assuming financial liability for other countries and high inflation. The resulting support for strict fiscal rules has been reinforced by the economic benefits that the institutional bias of EMU towards fiscal restraint has brought for the 'German model'. Since the strict control of member state budgets has thus been in the national economic interest, the German government acted in line with elite preferences *and* public opinion by pushing for the institutionalization of fiscal discipline in EMU.

These findings corroborate the special issue's general claim that Germany pursues an instrumental approach to the integration of core state powers. The preferences of both state elites and mass publics are a result of cost-benefit calculations rather than a matter of principle, as is shown, for example, by the relatively low public support for the SGP when Germany violated the fiscal rules in the first decade of the 2000s, but also by the paradoxical increase in support for the euro during its crisis. Accordingly, the federal government's commitment to fiscal discipline varied over time, ranging from violation of the rules in the first decade of the euro to over-compliance ('black zero') in the second decade. When the German demands for reinforcing fiscal constraints during the eurozone crisis were not fully met, the federal government lost trust in the effectiveness of supranational institutions and embarked on an intergovernmental approach, according to which financial help was offered in exchange for fiscal restraint and structural reforms. Finally, when the Corona crisis threatened the very survival of the German model, Germany even welcomed the temporary suspension of the rules. Like the violation and weakening of the SGP in the euro's first decade, this move cannot be explained with ordoliberal principles, but rather with Germany's national (economic) interest.

Comparing Germany with other EMU members, we observe that its preferences are roughly in line with those of the so-called 'creditor states'. These states in the north of the eurozone prefer fiscal discipline at the national level over cross-national risk-sharing (e.g. Lehner and Wasserfallen 2019). Yet, a closer look reveals considerable differences even within the camp of creditor states (Schoeller 2020a). First, while their preferences largely coincide, their strategies differ. The Netherlands, for example, advocate a supranational rule-based approach, with the Commission as rigorous enforcer of the SGP. Finland, by contrast, favours an approach based on national sovereignty and market discipline, with the option to exit the eurozone instead of supranational control or cross-national conditionality (Schoeller 2020a, 17–18). Second, Germany bears a greater responsibility for European integration than smaller states, as its support is a necessary – albeit not sufficient – condition for any European solution to succeed. As a consequence, smaller member states can pursue their preferences more rigorously. To be sure, this does not imply any automatism resulting in leadership or benign hegemony (Matthijs and Blyth 2011; Schoeller 2019). However, if the success of European integration is at stake, Germany needs to take its own weight into account and may therefore choose a more integration-friendly strategy than smaller states with similar preferences. This was the case when Germany and France jointly proposed a solidary Corona recovery fund based on grants, whereas a group of smaller creditor states ('Frugal Four') insisted on repayment and conditionality (Howarth and Schild, 2021).

Guided by pragmatism rather than principle, Germany will continue to prefer the integration of rules over supranational capacity-building. However, it is willing to adopt strategies that deviate from this goal if this helps to save the success of the 'German model' in Europe.

Notes

1. While this article focuses on the integration of fiscal rules, Howarth and Schild (2021) focus on the integration of fiscal capacities. The theoretical distinction between regulation and capacities follows from the core state power concept (Genschel and Jachtenfuchs 2014, 2016).
2. We understand preferences as an actor's evaluative rank order of possible outcomes in a given environment. A strategy is an actor's attempt to come as close as possible to its most preferred outcome (Frieden 1999, 41).
3. Available at https://ec.europa.eu/commfrontoffice/publicopinion/index.cfm.
4. Available at https://www.forschungsgruppe.de/Umfragen/Politbarometer/and https://zacat.gesis.org.
5. Translated by the authors; original in online appendix (quote 1).
6. Translated by the authors; original in online appendix (quote 2).
7. Translated by the authors; original online appendix (quote 3).
8. https://emuchoices.eu/data/; last access: 1 May 2020.
9. Translated by the authors; original in online appendix (quote 4).
10. Translated by the authors; original in online appendix (quote 5).
11. Translated by the authors; original in online appendix (quote 6).
12. Translated by the authors; original in online appendix (quote 7).
13. Translated by the authors; original in online appendix (quote 8).
14. What has changed with the Fiscal Compact is not so much the substance of rules, but the increased 'ownership' by the member states. For example, compliance with the rules shall be monitored by independent national institutions rather than the Commission (Schoeller 2019, pp. 93–127).
15. For instance, the Franco-German 'Meseberg Declaration' of June 2018 states that the 'ESM should have an enhanced role in designing and monitoring programmes … based on a compromise to be found between the Commission and the ESM. It should have the capacity to assess the overall economic situation in the Member States' (https://archiv.bundesregierung.de/archiv-de/meta/startseite/meseberg-declaration-1140806 last access: 22 July 2020).

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