

Guy Chazan, *The Financial Times*, June 9, 2020

The minds behind Germany's shifting fiscal stance

FT ft.com/content/2503ce9c-cde9-4301-bba0-8301f7deaf3b

9 juin 2020



Jörg Kukies, deputy finance minister, embodies a new spirit in German economic policy © EPA-EFE

For years, Germany held these truths to be self-evident: no big budget deficits, no common European debt issuance and no European fiscal union.

In the last few weeks, those principles have been revised with an alacrity that has stunned Germany's neighbours. A country that was long ultra-cautious on Europe and wedded to balanced budgets seems to have had a Damascene conversion.

The immediate trigger for the change is the coronavirus pandemic, which is expected to plunge the EU into the steepest slump in its history. Yet the change is nowhere near as sudden as it looks. It is now clear that the new thinking on Europe has been brewing for at least two years now. And the incubator was an institution that long symbolised Germany's fiscally hawkish view on Europe — the finance ministry.

Few better epitomise the shift than Jörg Kukies. A former Goldman Sachs banker who has served as deputy finance minister for the last two years, he was one of the drivers of last month's Franco-German proposal to raise €500bn through common EU debt and hand it out as grants, not loans, to corona-hit countries.

For Mr Kukies, the fund is a key milestone on the road to a full European fiscal union — to an EU with the powers not only to issue bonds but also raise its own revenues. "We talk a lot about European sovereignty, but you can't expect [that] to evolve as long as fiscal union remains incomplete," he said in an interview with the Financial Times.

Mr Kukies embodies the new spirit at the finance ministry. Between 2009 and 2017, it was presided over by Wolfgang Schäuble, who came to embody the austerity policies imposed on countries like Greece during Europe's sovereign debt crisis.

His successor Olaf Scholz, the former mayor of Hamburg, at first seemed at pains to project continuity, insisting he was just as wedded to balanced budgets — the policy of *schwarze Null* or black zero — as Mr Schäuble was.

However, behind the scenes he was reshaping the ideological mindset of the ministry. In January 2019 he replaced Ludger Schuknecht, its hawkish chief economist, with Jakob von Weizsäcker, a Social Democrat who had been a member of the European Parliament for 5 years and in 2011 drafted a proposal for so-called blue eurobonds.



Former German finance minister Wolfgang Schäuble embodied the austerity policies imposed during the eurozone sovereign debt crisis © Bloomberg

Mr Kukies, who like Mr von Weizsäcker studied in Paris, was also a key appointment. “On the day Olaf was sworn in, we were scheduled to speak for 30 minutes and it turned into a two-hour discussion about Europe,” he said, recalling his job interview in 2018. “We talked about the inherent contradiction of having an almost completed monetary union and a fiscal union that is rather weak.”

Mr Kukies, who was at the time co-head of Germany for Goldman Sachs, says it was this mind-meld on closer European integration that persuaded him to enter public service. “Scholz made it clear to me that he fully stands behind this idea — and that he has a real plan to move things forward on the European level,” he said.

According to Mr Kukies, he and Mr Scholz have been pushing German policy in a more pro-European direction ever since. First there was the 2018 Meseberg Agreement between France and Germany which gave fresh impetus to European banking reform and capital markets union — the plan to encourage greater cross-border private investment in the bloc. The two neighbours also backed a joint push to reform the ESM, the eurozone’s bailout fund.

Then there was Mr Scholz’s surprise announcement last November that Germany was ready to drop its once cast-iron opposition to a common deposit insurance scheme, a potentially big step on the road to eurozone banking union.

Recommended

Explainer [EU common budget](#)

Is the Franco-German plan Europe's 'Hamiltonian' moment?

But it was the coronavirus crisis that really changed Germany's fiscal and European policies in fundamental ways. As the pandemic took hold, Mr Scholz quickly abandoned the *schwarze Null*, pushing through €150bn of new borrowing. Last month he went further, unveiling a €130bn fiscal stimulus whose centrepiece was an unprecedented cut in value added tax.

On the European level, Mr Scholz helped enact a €500bn package of eurozone emergency measures, and worked with his French counterpart Bruno Le Maire on the Franco-German proposal for the recovery fund.



Mr Kukies's transition to Berlin from Frankfurt, where his wife and daughter have remained, was not easy. Many of Mr Scholz's fellow Social Democrats did not look kindly on his hiring a banker from Goldman.

"In Germany, it's not that common for people to move between the private and public sector," Mr Kukies said.

Yet, in the meantime, he has gained in stature and risen to become one of the government's most indispensable actors. From Berlin's rescue plan for Lufthansa to the Economic Stabilisation Fund, the €100bn vehicle to recapitalise and buy stakes in companies affected by coronavirus, all the finance ministry's major initiatives cross his desk. He has also a key influence on Germany's Europe policy.

The former banker is unabashed in his support for greater European fiscal integration. But there are caveats in his view. It can only work if every member state plays by the rules. "The Stability and Growth Pact needs to be strengthened so that all member states create fiscal space in the good times," he said. Fiscal union will not work when states have "maximum flexibility . . . in the fiscal rules".

Critics have played down the significance of the recovery fund he helped conceive. Though Mr Scholz has described it as Europe's "Hamiltonian moment", it does not, unlike Alexander Hamilton's 1790 deal in the US, mutualise outstanding debt. There are also no signs yet that significant tax-raising powers will be conferred on the EU.

But that does not detract from the importance of the recovery fund and what it represents, Mr Kukies said. "It was a significant signal to Europe that we're serious about the idea of solidarity."