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Economic ideas, party politics, or material interests? Explaining Germany's support for the EU corona recovery plan

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ABSTRACT
Why did the German government champion a debt-financed and grants-based EU corona recovery plan, despite the country's traditional aversion towards greater fiscal risk-sharing in Europe? To elucidate this question, this article critically assesses different explanatory factors cited in the academic literature and public debate to determine a country's response to pressing challenges. Tracing Germany's approach to the corona pandemic within the EU context, it finds that national material interests rather than (new) economic ideas or party politics were decisive. The timing, scope, as well as the limits of the German-inspired recovery plan for the fight against the corona crisis suggests at least as much continuity as change in Germany's position on EU fiscal policy. Yet, the findings also highlight Germany's enduring, and in fact reinforced, commitment to European integration and its preparedness to provide stability in moments of deep crisis for the EU.

KEYWORDS corona; crisis; EU; Germany; material interests; recovery plan

Introduction

On 18 May 2020, Germany's Chancellor Angela Merkel called for a swift, common, and comprehensive financial response by the European Union (EU) to the escalating health and economic crisis caused by the Covid-19 (corona) pandemic. Together with France's President Emmanuel Macron, she presented a plan which foresaw the European Commission, backed by member-state guarantees, raising €500 billion in the financial markets and allocating the money as direct transfers to Europe's hardest hit regions and economic sectors (Bundeskanzlerin, 2020). Taking the lead, Merkel urged national leaders from the other EU member states to back the Franco-German initiative and enable a strong European recovery from the pandemic.

The German support for a debt-financed and grants-based EU recovery plan took many policymakers and observers by surprise. In fact, in the early

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stages of the pandemic, the federal government – along with other Northern, fiscally 'frugal' member states – had opposed large-scale EU measures. Moreover, Germany's approach to the corona crisis seems to conflict with its traditional position on EU fiscal policy since in the past, Germany repeatedly had ruled out common debt and direct financial transfers between member states.

Why, then, did the German government promote a bold European financial response in the corona crisis? What explains the differences, as well as continuities, in the country's approach to EU fiscal policy? Some scholars and political commentators have cited new economic ideas and changes in domestic party politics as key factors for Germany's supposed change of mind (Matthijs, 2020; Chazan, 2020), while others have invoked national material interests (Schoeller & Karlsson, 2021; Howarth & Schild, 2021). These different interpretations refer to broader academic debates about the actors and conditions determining member states', and the EU's, responses to pressing challenges such as moments of deep crisis (e.g., Csehi & Puetter, 2021; Schirm, 2018; Târlea et al., 2019).

The episode of Germany's support for an EU recovery plan is particularly interesting and important, both from a theoretical and an analytical perspective. In theoretical terms, it allows once more exploring the role of different concepts from various academic schools for the handling and settlement of the EU's most recent crisis. Assessing different factors and their (relative) explanatory power sheds further light on the actors and conditions driving change, or ensuring continuity, in national EU politics and European integration. Analytically, the Franco-German coup and the German initiative in particular suggest a careful examination of the policies and politics of the EU's largest and most powerful member state, as well as the forces and motivations behind them.

This article starts with the assumption that national material interests were decisive for Germany's approach to the pandemic. Scrutinizing different explanatory factors cited in the academic literature and public debate, it finds that material concerns related to the export economy and fiscal stability in Europe – themselves being the consequence of the nature and implications of the corona crisis – led the federal government to champion an EU recovery plan. By contrast, and other than recent research suggests, economic ideas and domestic party politics were less important. New ideas, if detectable at all, did not have much impact on the government's actions, while traditional German economic considerations proved durable. In turn, the composition of the federal government, now also comprising the social democrats, and executive-legislative relations mattered little, primarily because it was Merkel and the Chancellery who took the initiative and secured large support among parliamentarians.

The remainder of the article is organized as follows: The next session presents different explanatory factors cited to shape a country's approach to EU fiscal policy, especially in times of crisis, illustrating why and how they (could) matter in the case of Germany. The third section develops case-specific propositions for the following empirical analysis. The fourth section first traces Germany's approach to the corona crisis showing the explanatory power of national material interests, before putting two alternative factors – economic ideas and party politics – to the test with the empirical record. The final section sums up the findings, locates them in broader theoretical debates, and suggests avenues for future research. Together, the article argues that since national material interests – reinforced by the nature and implications of the corona crisis – were decisive, Germany's approach to the pandemic and its position on EU fiscal policy represent at least as much continuity as they mark change. Yet, the findings also highlight Germany's enduring, and in fact reinforced, commitment to European integration and its preparedness to provide stability in moments of deep crisis for the EU.

Determinants of national EU fiscal policy

What explains national positions on EU fiscal policy? Which factors prevail in times of crisis? Scholars have cited economic ideas, domestic party politics, and national material interests to determine a country's approach to EU fiscal policy. These factors more generally are regarded key for the position a government takes on EU policymaking (e.g., Schirm, 2018). They point at varying kinds of preferences – material and ideational – and actors – the government itself, political parties and parliamentarians, economic interest groups – which come together to suggest specific government action. First, a government might act based on ideas from different economic schools (Matthijs, 2020). Secondly, a government might act in a way to divide and side-line its domestic political opponents. Alternatively, governing parties might oppose planned government action due to inter- or intra-parliamentary competition (Târlea et al., 2019). And thirdly, a government might act in light of a shared understanding of the national material interest or to protect key national industries (Moravcsik, 1999).

All three factors, potentially, can be decisive in the case of Germany, where certain economic ideas are said to be well established and influential; where several, competing political parties form the federal government; and where material interests in the EU's largest economy are particularly at stake. During crises, when uncertainty is high and time short, these factors might come into conflict with each other, with one factor surpassing the others. In the following paragraphs, I will spell out in greater detail the theoretical basis and implications of these three factors and how they (can) matter in the German context.

First, constructivist scholars stress the role of economic ideas in policymaking. The literature distinguishes two types of ideas (Schmidt, 2008, pp. 306–307): Cognitive, or causal, ideas indicate 'what is and what to do'. They provide guidelines for political action and demonstrate how to attain specific policy objectives. By contrast, normative, or principled, ideas elucidate 'what is good or bad […] in light of what one ought to do'. They attach values to political action and help legitimizing policies. Together, ideas can serve as focal points that reduce uncertainty, stimulate collective action, indicate the measures to take, and consolidate policies (Blyth, 2002, pp. 34–44).

Economic ideas relate to the question how to steer the economy and how best to organize and link monetary, economic, and fiscal matters in a polity. In basic terms, they differ when it comes to the form and extent of market competition and the role of the state, which holds true for both the national and the EU level: On the one hand, Keynesian ideas advocate a strong and active executive with the necessary tools to intervene in economic processes. Since markets are considered unstable and dysfunctional, the government should create demand through debt and other means to expand the amount of money available (Hall, 1989). On the other hand, neo-liberal ideas favour free market competition across economic sectors and national borders and a limited role of the state. To avoid or reduce excessive public spending, competitiveness should be gained via regulatory reforms on the supply side, for instance the flexibilization of labour markets (Schmidt & Thatcher, 2013).

Another distinction relates to new versus old, or internalized, ideas. Some scholars have argued that policymakers are most open to new economic ideas and that these are most likely to make an impact during periods of economic crisis because of the high level of uncertainty involved (Blyth, 2002, pp. 30–34). By contrast, ordoliberalism arguably represents an instance of old and internalized ideas especially in Germany, where it is said to regularly have acted as focal point for policymakers (Schäfer, 2016). At the heart of ordoliberal thinking lies the principle of liability, indicating that whoever takes risks must be liable for the occurred losses. Missing or inadequate control mechanisms at the EU level are expected to lead to moral hazard on the national level. Therefore, ordoliberals highlight the importance of strong EU legal frameworks and enforcement mechanisms but have been sceptical towards (greater) fiscal risk-sharing and the mutualization of resources and debt.

Second, institutionalist scholars emphasize 'domestic politics' as a constraining (or enabling) factor for a government's room of manoeuvre at the European level. Different national political structures and the presence of (potential) internal veto players for a long time have been said to influence EU policymaking. Arguably, in recent years and in view of a Union continuing to expand its political impact on member states, the role and importance of the domestic sources for EU-level actions have further grown, especially in redistributive and potentially divisive fields like fiscal policy (Bulmer & Joseph, 2016). Together, 'domestic politics' comprise the ideological composition of the government (often bringing with it *inter*-party competition), executive-legislative relations (implying *intra*-party competition), powerful institutions, and public opinion.[1]

Like most other EU member states, Germany is a parliamentary democracy based on proportional voting and representation. The German executive thus usually takes the form of a coalition government including several political parties. Scholars have noted a large consensus among German mainstream parties on European integration and key principles of EU fiscal policy, such as the need for sound public finances and national fiscal responsibility. However, there are important differences when it comes to the form and extent of fiscal risk-sharing at the EU level, with the Social Democrats (SPD) being more favourable while the Conservatives (CDU and CSU) take a stricter stance (Zimmermann 2014). The composition of the government thus might suggest different national approaches to EU fiscal policy.

Moreover, subject to legislative scrutiny, the executive relies on parliamentarians' support for important decisions and policy outputs, including major steps in European integration (Saalfeld, 2015). Especially the Chancellor as the figure personifying the government and representing it in European bargains must make sure to win over – or, at times, circumvent – internal dissenters. At the same time, numerous scholars have noted that national leaders acting on the European stage enjoy great autonomy from other domestic actors and forces, especially in the early stages of an escalating crisis when threat, urgency, and uncertainty are high (Boin et al., 2016, pp. 3–22). In this regard, crisis management in the EU to a large extent has remained an elite-driven process, with national leaders called upon to find common solutions to pressing problems.

A third group of scholars put forward national material interests to explain a country's stance on EU fiscal policy. Liberal intergovernmentalism, the main theoretical representative of this tradition, expects national preferences for European bargains to reflect the interests of powerful domestic producer groups and a country's overall macro-economic (fiscal) position and level of interdependence (Moravcsik, 1999, pp. 35–50). Producer interests tend to be particularly intense in trade-related policies, where gains are concentrated and easier to anticipate. The more favourable the position of national producer groups in the international context, the more the government will advocate trade competition and open exports markets. In turn, the fiscal position is more important in monetary politics and exchange-rate coordination due to general macro-economic objectives. The better a government's fiscal position and international economic competitiveness, and the lower its level of interdependence, the more it is able to set the terms in intergovernmental bargains.

Interests-related accounts consider national governments the crucial actors in the international political arena. Acting rationally and instrumentally, they calculate the (potential) costs and benefits of new steps in European integration and choose the course of action that satisfies or maximizes their utility under the given circumstances. Countries in a good fiscal position, for instance, not being affected by the economic and financial turmoil experienced elsewhere, will oppose greater EU fiscal risk-sharing and pass on adjustment burdens to others (Moravcsik & Schimmelfennig, 2019). Only when status quo costs become untenably high – as might happen in the event of a major economic shock affecting all member states and threatening the integrity of a favourable policy regime – can positions change. Then, member states might reassess their strategic and short-term policy preferences to secure their more fundamental and longer-term national material interests (Milner, 1997, pp. 33–66).

The EU brings together member states with different economic models. Germany, with its supply-side growth strategy of high productivity and competitiveness, heavily relies on exports. As the EU's largest economy with most borders to neighbouring countries, its producer groups profit from the open borders and free competition in the EU's single market (Schimmelfennig, 2015). Moreover, in macro-economic terms, Germany greatly benefits from Europe's economic and monetary union (EMU, or Eurozone) with its stable exchange rates and a *de facto* undervaluation of a (hypothetical) German currency. The federal government thus has a key interest in a stable EMU framework and large export markets in Europe. At the same time, it seeks to limit its own fiscal policy commitments and risks, continuously refusing the German budget to guarantee for other member states' expenditures. Consequently, the government in the past proved ready to endorse greater EU fiscal risk-sharing in the form of bailouts or new institutions only if, and to the extent that, the costs of an EU or Eurozone breakdown were considered prohibitively high. Aligning its favourable fiscal position with its overall economic and political concerns, the federal government typically pursues a policy of doing as much as necessary to save the single currency but as little as possible to limit its own financial costs, excluding common debt and fiscal risk-sharing wherever possible (Schoeller, 2019, pp. 129–158).

In sum, scholars cited the three factors of economic ideas, domestic party politics, and national material interests to explain a country's position on EU fiscal policy. Seeking to account for the German approach to the corona crisis and its support for an EU recovery plan, Matthias Matthijs (2020, pp. 20–21) recently has recalled the first two factors, arguing that new economic ideas more inclined towards Keynesianism and a federal government involving the social democrats and a prominent role played by its finance minister, Olaf Scholz, made such a crisis resolution possible. By contrast, this article puts forward a material interests argument, assuming that material concerns in view of the crisis' impact led the German government to accept (temporary) EU debt. The article thus joins a broader debate between ideas- and interests-based explanations, clearly siding with the latter.

Propositions, methodology, and data

The three potential explanatory factors suggest different propositions for the German approach to the corona crisis, each with their own 'observable manifestations' (Beach & Pedersen, 2016). First, the (new) economic ideas argument assumes, alternatively, ordoliberal principles to guide political action or a new economic thinking to gain traction. We thus should find evidence for a majority of German policymakers, or those in charge of the important decisions, to follow specific economic ideas and for German-inspired EU policies to reflect these ideas.

Second, the domestic party politics argument ascribes a crucial role to the composition of the federal government and to the parliamentary forces necessary for the government to implement planned policies. If party politics was decisive, there should be evidence for significant differences between the coalition partners and a distinct impact of the social democrats (as the minor partner) on Germany's approach to the corona crisis, or for parliamentarians to prevent or alter government action.

And third, national material interests assume the German government to pursue economic and financial policies reflecting domestic commercial interests and/or the country's overall fiscal position and economic interdependence in the EU. We thus should find evidence for the government to follow demands from its main producer groups and/or to balance national material costs and benefits in the EU's crisis response in light of its own affectedness, securing key national interests but limiting the own involved costs and risks. This balancing out might involve a change in the government's political rhetoric and action over time in accordance with the (expected) economic impact of the crisis.

To test these propositions, the article provides a qualitative in-depth case study of Germany's approach to the corona crisis in fiscal terms and within the EU context. It covers the period from early March 2000, when the new coronavirus started spreading across Europe, to mid-May, when first Germany, together with France, and little later the European Commission, presented their proposals for an EU recovery plan. The outcome of interest is the French-German initiative from 18 May for a one-off fund worth €500 billion and financed through common debt, to be linked with the EU's long-term budget and to provide grants to the hardest hit regions and economic sectors (Bundeskanzlerin, 2020).

While the next section traces the sequencing of events and the important actors at play, highlighting the explanatory power of the material interests argument, the subsequent section assesses – and dismisses – the other two factors.[2] The article makes use of several different sources including official EU and German policy documents, public speeches by the Chancellor, the finance minister, and other key German policymakers, as well as German and international newspaper reports.[3] These, it triangulates and complements with informal information gained in 13 semi-structured interviews with German business representatives, civil servants and policymakers, French civil servants, and Commission officials. To obtain relevant information, the interviewees were guaranteed confidentiality.

Tracing material interests

The material interests argument assumes the German government to pursue national economic and financial concerns reflecting demands of key commercial groups and the country's overall fiscal position and interdependence in the EU. Indeed, as the following section will show, the proposal for an EU recovery plan itself, as well as its timing, scope, and limits, were driven by German material interests and considerations.

When the novel coronavirus began spreading rapidly across the EU from early March 2010, member states took primarily national measures for its containment. Austria, on 11 March, was the first to close its border with Italy, shielding from the EU's earliest corona hotspot. In the following weeks, 16 other countries including Germany followed and closed their borders, causing severe restrictions of economic supply chains and labour migration inside the travel-free Schengen area. Statements issued by both German policymakers and the main economic interest groups in March focused on the pandemic's impact on the national and even sub-national levels and were concerned with government measures in the national context. The European dimension of the looming crisis, by contrast, was yet absent.

The pandemic affected all member states and everywhere led to economic slowdown, rising unemployment, and growing public debt. However, the immediate impact of the virus and its further ramifications would be different with Southern EU countries being particularly hardly hit, both in terms of infection numbers and lacking financial resources to cushion the economic damages. Member states' approach to the crisis and their position on common EU measures at this early point seemed to reflect their immediate affectedness and own budgetary situation[4]: While foremost Southern countries demanded financial support and greater fiscal risk-sharing, Northern countries advocated a more cautious approach and rejected common debt. Finance minister Scholz, according to news agency *Reuters*, on 16 March even turned down discussions on loans from the ESM as inadequate and 'premature'. In her televised address to the nation two days later, Merkel spoke of the pandemic as the greatest challenge for Germany since the Second World War but did not mention the word 'Europe' a single time.

EU-level discussions gathered further pace when on 25 March, nine member states including Italy and Spain but also France, in a letter to the European Council President, called for the introduction of 'corona bonds', hence the joint issuance and liability of government debt. At the European Council meeting the following day, national leaders again clashed over possible EU actions, with Germany and other Northern countries now advocating the use of ESM loans. Still on 7 April, the *Financial Times* stated that Germany and its Northern 'allies' of fiscally conservative member states were satisfied with small European measures and would oppose common debt.

However, with the number of corona infections and deaths on the rise and economic forecasts[5] increasingly gloomy for individual countries and the EU as a whole, the German government got more vocal on Europe. Concerns about high debt levels notably in Southern member states and their uncertain recovery put the stability of the Eurozone in danger. In late March, ten-year Italian government bonds yields had raised to 2.4 per cent – almost three percentage points above German rates – making government borrowing more costly and threatening to cut off Italy – the EU's third-largest economy – from the financial markets. Simultaneously, the Federation of German Industries (BDI) – Germany's leading industry organization – sounded alarm and warned that in view of the interruption of economic supply chains and distortion of the EU's single market, the maintenance of German industry was in danger (BDI, 2020).

In contrast to the Eurozone crisis a decade ago, the corona crisis made economic damages noticeable for businesses and individual citizens also in Germany. While German businesses in Italy and elsewhere directly experienced the negative consequences of the local shutdowns, important export sectors like the Automotive Industry reported record sales collapses (VDA, 2020). Studies as the one reported by *Handelsblatt* on 8 May showed that German exports to other EU countries in March 2020 – the first month of the EU-wide lockdown – declined by eleven per cent, the biggest drop in 30 years, putting at risk hundreds of thousands of jobs and billions in tax revenues.[6] According to a business representative, the lockdown and at times closure of entire economic sectors made clear the interdependence – and vulnerability – of German enterprises inside the single market, reinforcing the impression that economic recovery in Europe would have to happen together (Interview 4).

Given the massive economic downturn and the still missing European response to it, German policymakers now repeatedly stressed the unprecedented nature of the crisis and the huge damages it was causing for Germany and elsewhere in Europe. April saw a remarkable change in the political rhetoric and action on the part of the federal government, with Merkel labelling the corona crisis the 'biggest test' for the EU since its foundation. On 20 April, she for the first time hinted to be in favour of commonly issuing EU bonds, which however must happen within the limits of the EU treaties. Speaking to the Bundestag three days later, Merkel declared that 'Germany can only do well in the long term if Europe is also doing well' and that Germany was ready to make significantly higher contributions to the next Multi-annual Financial Framework (MFF), the EU's long-term budget (Merkel, 2020; own translation).[7] According to a high-level civil servant from the federal government, the 'novel quality' of the corona crisis penetrating several policy fields and threatening the functioning of all three EU flagship programs – Eurozone, Schengen area, and single market – led Merkel to conclude that more efforts at the EU level were needed to secure German material interests in Europe (Interview 10).

Justifying her new stance, Merkel declared that 'European solidarity', also in financial terms, was imperative, especially in an escalating crisis that was 'no one's fault' (Merkel, 2020). As a global health emergency, the pandemic was a truly exogenous shock affecting all member states. Notions of moral hazard and free-riding, which had blocked previous debates over greater EU fiscal risk-sharing, this time did not apply and were not evoked.[8] In addition to the particular nature and consequences of the corona crisis, the following initiative for an EU recovery plan was stimulated by the role and importance of Franco-German relations in Europe and the two countries' 'embedded bilateralism' (Krotz & Schramm, 2021). After German political elites had concluded that ambitious European financial measures were needed, the 'natural' actor to align with was France (Interviews 5, 6, 10, 13).

Indeed, joining a camp of other member states in their call for corona bonds, the French government had increased the pressure on Germany to take positions and get more active in the EU crisis management. From late March and largely behind the scenes, German policymakers and civil servants, together with their French counterparts, had started intensifying bilateral consultations trying to bridge differences (Interviews 5, 8, 13; see also Seidendorf, 2020). A first result became visible in early April when Eurozone finance ministers agreed on a first corona support package consisting of loans and guarantees for workers and companies and favourable credit lines for health-related state expenditure (Eurogroup, 2020).

In the weeks following the European Council's request to the Commission from 23 April to soon present a proposal for an EU fiscal stimulus, the Chancellery and Elysée held both close bilateral and direct contacts with the cabinet of Commission President von der Leyen (Interviews 3, 9). A joint preference developed and tightened notably between the Commission and the German government to set up a recovery plan via the MFF, which had to be agreed upon before the end of the year (Interviews 5, 13; see also *Politico* from 2 July 2020). Only nine days after the Franco-German initiative, the Commission presented its 'official' proposal – termed 'Next Generation EU' and largely built on the Franco-German plan – together with a renewed proposal for the next MFF (European Commission, 2020).[9]

The German government's support for extraordinary measures in EU fiscal policy was in line with calls from its leading businesses and industry groups. On 12 May, the BDI, together with its French and Italian counterparts, had issued a position paper in which they expressed their concerns about the large but asymmetrical damages the pandemic would cause for national economies, risking jeopardizing competition in Europe. Like the federal government, and in contrast to its positions held in the past, the BDI joined demands for 'a level of public support previously unknown in times of peace' and a large-scale EU investment 'with a balanced ratio of loans and grants' (BusinessEurope, 2020). Yet, this congruence does not mean that industry was determining the positions taken by the government. Instead, the sequencing of events and the interview data show that the government had moved to advocate an EU-level fiscal stimulus *prior to* and largely *independent from* respective calls so that economic interest groups 'jumped on a bandwagon' and 'joined politics that were already moving anyway' (Interviews 4).

Advancing the idea of an EU recovery plan, the federal government made sure that this would happen along German principles. In line with its longstanding positions on EU fiscal policy, it insisted on the issuance of common bonds within the limits of the EU treaties and through the EU's regular budget. The government strongly opposed a stand-alone fund and truly new budgetary tools like corona bonds, pursuing 'several' rather than 'joint' liability. Overall, Germany promoted a recovery plan that is conditional and limited in multiple ways: First, national expenditures must be directed towards future-oriented policies like the digital and ecologic transitions, stimulating economic growth, reforms, and competitiveness. Second, despite its historic dimension, the recovery plan falls short of many national fiscal stimuli, notably the massive German ones. And third, through its link with the EU's 'own resources' decision and the need for unanimity for any changes to this ceiling, the recovery plan is explicitly designed as a one-off crisis instrument expiring with the current MFF in 2027.

Assessing alternative explanations

National material interests thus explain well the timing, size, structures, as well as the limits of the German-inspired EU recovery plan. To further increase the validity of this claim, the two other potential explanatory factors will be put to the test with the empirical record: First, the ideas argument suggests specific economic principles – anchored in ordoliberalism – to guide German policymakers' choices or, alternatively, new economic ideas to gain traction. And second, the party politics and legislative argument assumes different policy preferences within the coalition government and a decisive impact by the minor coalition partner, or powerful parliamentary forces – again because of different preferences – to prevent planned government action.

Regarding ideas, some government representatives indeed advocated a revolutionary EU crisis response and a significant German part in it. Most distinctly, the minister for European affairs, Michael Roth (SPD), in an interview with the daily *Die Welt* on 10 April, endorsed the idea of 'corona bonds'. These rare attempts, however, never gained traction, let alone prevailed in government circles. To the contrary, the federal government, including finance minister Scholz, early in the crisis had made clear that Germany would not subscribe to joint debt and liability. When the Commission in late April was assessing possible forms of an EU recovery instrument, its main concern was to overcome the heated debate which was paralyzing the European Council at the time: Well aware that corona bonds continued to be 'toxic' in Germany and other Northern member states, the Commission – itself sympathetic to the idea – decided to pursue alternative recipes (Interviews 3, 7, 9; see also *Politico* from 2 July 2020).

Breaking its budgetary taboo on common debt and grants, the German government went against ordoliberal principles. At the same time, however, it insisted on existing European instruments and provisions. Continuing to reject the notion of joint and several liability, the government pushed for limiting each country's fiscal risk to its share of the EU budget and strongly objected, for instance, the Le Maire plan from early April, where the French finance minister had called for an 'exceptional and temporary' stand-alone fund, the issuance of joint debt, and joint liability by all member states (cf. *Financial Times*, 1 April 2020). For Germany, the Le Maire plan was unacceptable as it feared ultimately becoming liable for the entire debt in case of individual countries defaulting (Interviews 5, 12, 13).

Instead, the federal government sought to create a recovery plan closely linked to the regular EU budget and through a decision to lift the EU's 'own resources', which would be a temporary measure and require the consent of all member states (Interviews 2, 5, 10). In the eventual initiative with France from 18 May, it enforced a recovery plan as a one-time instrument closely tied to the EU budget with the corresponding supranational oversight and economic conditions attached. In this respect, Germany underlined its longstanding position of limited national liability for EU fiscal resources and the need to secure broad parliamentary ratification and control for any common financial measures (cf. Howarth & Schild, 2021). Thus, there is little evidence that new economic ideas cut through widely in Germany. If anything, ordoliberal concerns still are widespread amongst policymakers and civil servants but themselves cannot explain the country's support for an EU recovery plan.

Regarding domestic politics, it is true that finance minister Scholz played a prominent part in the agreement of the Eurogroup from 9 April on a first corona support package. The measures therein – loans and guarantees for workers, companies, and health-related state expenditures – however, built upon existing EU instruments and were undisputed within the federal government. Subsequently, national leaders around Chancellor Merkel seized the initiative, instructed the Commission to work out proposals for a recovery plan, and made clear that they would decide on the details of any such an instrument. The interviewees confirm that the Eurogroup package generally was considered only the start for further and more comprehensive EU measures to fight the economic consequences of the pandemic. These, however, would be negotiated at the highest political level among national leaders (Interviews 1, 5, 10).

Occasionally, some media reports and Scholz and his advisors themselves suggested that they had been decisive for Germany's push for an EU recovery plan and the underlying bilateral initiative with France (Chazan, 2020; Pancevski & Norman, 2020). Insiders, however, reject this interpretation. According to a high-level French civil servant closely involved in the preparations, Scholz did not play any role in the Franco-German undertaking (Interview 1). Instead, when Merkel and Macron on 18 May went to the press, civil servants in the finance ministry were taken by surprise (Interviews 2, 5, 13) since preparations on the German side had happened exclusively inside the Chancellery, which in the days prior to the plan's presentation had sent back and forth the draft to the Elysée to make final adjustments (Interview 10). The plan itself met large support across the coalition government. Thus, it was only *after* the announcement that some policymakers sought to claim credit for it and take the lead in the interpretation what the proposal would actually mean for EU fiscal policy in the longer term.

Moreover, despite Germany's unprecedented EU commitments, there was no party-political rebellion. This was due to two reasons: First, as a public health crisis and an exogenous shock, the pandemic was affecting all member states. Second, conservative policymakers had been regularly briefed on the upcoming Franco-German initiative by Merkel herself, receiving the assurance that the recovery plan would be a one-off instrument exclusively for the fight against the pandemic and would not mean Germany becoming liable for other countries' debt (Interviews 10, 11, 12). Consequently, when Merkel eventually unveiled her initiative, not only the Social Democrats and the opposition parties – apart from the EU-hostile Alternative for Germany – but also the conservative parliamentary group welcomed the recovery plan (CDUCSU, 2020). We thus find a large convergence of policy preferences both within the coalition government and between the government and the parliamentary parties supporting it.

Conclusions

Germany's support for a debt-financed EU recovery plan is seminal and modest at the same time, representing both a deviation from previous fiscal positions and a high level of continuity in the country's EU politics. To make sense of this apparent paradox, this article has scrutinized the driving forces behind Germany's historic initiative. It has critically assessed the explanatory power of different factors cited in the academic literature and public debate to determine a country's response to pressing problems and its position on EU fiscal policy. In contrast to what recent research suggests (e.g., Matthijs, 2020), supposed new economic ideas and changes in domestic party politics hardly cut through, mattered little, and at best played secondary roles. Instead, German economic and financial interests, threatened by the corona crisis and its implications, best explain why the federal government promoted an EU recovery plan in the first place and why it took its eventual form in the landmark Franco-German proposal from 18 May 2020.

As for economic ideas, the article has found no evidence for specific economic principles guiding political action, let alone for a fundamental new economic thinking among German policymakers and civil servants. To be sure, some interviewees indicated that also Germany had drawn its lessons from previous shortcomings in EU fiscal policy. However, this does not mean that authorities had taken farewell of key ordoliberal concerns including moral hazard, fiscal free-riding, and the strong preference for risk-reduction before any risk-sharing. The collected evidence suggests that most actors in Germany regard the EU's response to the corona crisis, and the recovery plan in particular, as an extraordinary measure in extraordinary times, thus timely limited for the fight against the pandemic. And yet, like in previous instances, when specific ideational (ordoliberal) economic principles and material interests came into conflict, the German government gave priority to the latter (cf. Howarth & Schild, 2021).

Regarding domestic party politics, there equally is no evidence that the composition of the federal government itself, or particular domestic parliamentary forces and political institutions, were decisive for Germany's approach to the pandemic.[10] Although it is not possible to establish the counterfactual of a conservative German finance minister during the corona crisis, the rhetoric and, to a lesser extent, political action of Olaf Scholz in EU fiscal policy has been different from that of his predecessor Wolfgang Schäuble. Still, also Scholz clearly denied calls for corona bonds, not giving spin to some rare respective claims from his own party. Importantly, Germany's support for an EU recovery plan was an elite-driven enterprise, carefully prepared inside the Chancellery, largely bypassing not only parliamentarians but also the finance ministry. The fact that there was no opposition to the recovery plan from the conservative ranks further indicates that this move was largely uncontested within the federal government and the parliamentary forces supporting it (as well as within the other political parties and the broader public). This, in turn, calls into question the supposed domestic 'constraining dissensus' on EU redistributive politics, as claimed by postfunctionalist theory, at least in the early stages of an escalating crisis.

What best explains the German support for an EU recovery plan, and especially its timing, scope, and limits, are national material interests. Faced with a symmetric, generally noticeable, and worsening crisis bringing about huge economic, social, and political damages across Europe, and threatening the stability and future of the EU and its core policy regimes – Eurozone, Schengen area, and single market – the German government paved the way for an ambitious EU financial response. Doing so, it broke its budgetary taboo and subscribed to common debt and direct financial transfers to the regions and economic sectors most affected. In line with its material interests, however, the recovery plan follows key German principles and builds on existing instruments such as the EU's long-term budget, the 'own resources' decision in every member state, and individual countries' fiscal liability.

The federal government thus once again made careful material calculations when addressing EU fiscal policy, as witnessed already in the past (cf. Schimmelfennig, 2015, p. 182). It decided to do as much as necessary to secure its key material interests but as little as possible to limit the involved costs and risks. However, and other than liberal intergovernmentalism would expect, domestic commercial groups did little to influence, let alone determine government positions; since politics had begun to take action already, businesses and industry could join with their demands. More important were the concerns of the highly interdependent German economy (permanently) suffering damages and losses in the case of an uneven European recovery or a European disintegration. Hence, Germany's macro-economic position in Europe and its high level of fiscal (and political) interdependence made a common crisis response necessary.

Future research might want to delve deeper into comparative analyses which this article has alluded to at various points but could not further carry out due to its single case-study design. One possibility is to examine more thoroughly the similarities and differences between the Eurozone crisis a decade ago and the recent corona crisis from a broader EU or individual member-state perspective. Another possibility is to scrutinize the importance and potential interplay of the three emphasised explanatory factors in other member states during the corona crisis. This article has done so with regards to Germany, due to its size and financial resources arguably the most important country in the EU's response to the pandemic. In view of the different affectedness of member states by the pandemic, their different positions in EU fiscal governance, and their different economic traditions, however, one can expect the factors to have mattered and worked out differently in other member states.

The fact that the 'frugals' (Austria, Denmark, Sweden, and the Netherlands, at times joined by Finland), despite similar material interests as Germany, were much more reluctant towards common debt further suggests that other factors complementary to the material interests argument, were at work. This article has alerted to the importance of the Franco-German relationship in Europe. For both countries, with it comes political responsibility for the stability and cohesion of the EU and for effective crisis management. German consent, for instance, is a necessary (though not sufficient) condition for every EU measure involving large amounts of money. To secure a common response to the corona crisis among the EU-27, however, prior agreement with France was essential. Thus, in addition to explanatory factors for government preferences located at the national (Schirm, 2018; Târlea et al., 2019) and EU-level (Csehi & Puetter, 2021), researchers might have to turn to the bilateral level as well.

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Notes

1. 'Mass publics' mattered little for the topic of interest, presumably because public opinion on an EU corona fiscal instrument and the German part in it was not yet well established in the early stages of the pandemic. Similarly, there is no reason to *ex ante* assume a decisive role played by a particular German domestic institution like its Central Bank or Constitutional Court. Thus, public opinion and domestic institutions are referred to occasionally throughout the article but are not examined systematically.
2. The Online Appendix systematically contrasts the expected evidence following from the propositions with the evidence actually found.
3. The official documents and speeches were derived from the websites of the Commission, European Council, Chancellery, and finance ministry, looking for entries on important dates of the crisis and using the search word 'corona'. The newspapers consulted comprise two German ones (*Frankfurter Allgemeine Zeitung, Süddeutsche Zeitung*), two French ones (*Le Figaro, Le Monde*), and three internationals (*Euractiv, Financial Times, Politico*). To find relevant reports, the search words 'Germany', 'EU', and 'corona' were used.
4. Germany early on made use of its large financial resources. In May 2020, the Commission stated that Germany alone accounted for more than half of the approved emergency coronavirus state aid.
5. In its Spring Economic Forecast in May, the Commission would confirm the unprecedented downturn of the EU economy contracting by 7.5 per cent in

2020, a revision down by nine percentage points compared to the Autumn Forecast of the previous year.
6. As a pandemic triggering global shutdowns and decline in demand, German industry could not compensate for their European losses through sales to export markets abroad. This marked an important difference to previous economic crises in Europe.
7. Noticeably, only a few weeks earlier in February, negotiations on the next MFF had failed because Northern member states including Germany had called for a reduced EU budget.
8. Thus, ideational factors in relation to the pandemic – namely perception and framing – mattered for the government's approach. In this respect, the primarily exogenously driven concerns about German material interests were reinforced by endogenous considerations about the nature of the crisis and its implications for common European action. However, these ideational factors are different from and unrelated to the (wrongly) claimed change in German economic ideas.
9. National leaders approved both the recovery plan and the MFF at a European Council meeting in mid-July.
10. In this context, the evidence also suggests dismissing the interpretation that the German Constitutional Court's ruling from 5 May 2020 challenging the legality of the European Central Bank's monetary policy during the Eurozone crisis and thus implicitly also questioning its measures during the corona crisis, led the federal government to pursue a more active EU fiscal policy (cf. *Financial Times*, 5 May 2020). Rather, the sequencing of events and the interviewees' explanations suggest that the Court's ruling and the government's corona crisis approach were two different issues – and politically dealt as such – and that German plans for comprehensive EU fiscal measures had already been far advanced at the time (Interviews 10, 12).

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