

II. DE-RISKING IS ENOUGH. THE GERMAN ECONOMY AND THE ZEITENWENDE

The Russian invasion of Ukraine has forced Germany to answer the question about the boundaries of its economic cooperation and its dependence on globalisation, especially in its relations with authoritarian regimes. The war has also drawn attention to the issue of the balance between the market and the state in an economy affected by crisis and inflation, and which is additionally struggling with the challenges of energy and digital transformations. The vision of a multipolar world and intensifying competition has also sparked a discussion about the need to strengthen the EU, for example by creating joint funds and deepening fiscal integration, so that it will be able to match its global competitors.

However, the German public's response to these dilemmas can hardly be described as a turning point or a fundamental change of mindset. In their opinion, the globalisation crisis is transient, so the country's economy should remain export-oriented, and the risk associated with foreign contacts should merely be reduced at the most. State interventionism has temporarily intensified in economic policy, albeit without changing the rules of the economic model. The approach to economic integration also remains unaltered: Germany does not see the need to significantly enhance financial and fiscal cooperation within the EU.

The shock of the war

The discussion on the *Zeitenwende* has primarily been focused on security issues, due to the literal interpretation of the speech Chancellor Olaf Scholz made on 27 February 2022, and on energy policy, where the response to the challenges related to the Ukraine war has materialised the fastest. However, the *Zeitenwende* (turning point, new era) covers a much wider range of issues, including Germany's economic course.

At first glance, the Russian invasion has led to a typical economic shock. On the supply side, it mainly hit costs, especially of energy carriers, and shook up some supply chains, for example in food markets. In turn, on the demand side, the key issue was the decline in consumer confidence due to concerns that the war might last a long time. As a consequence, instead of the expected recovery from the pandemic crisis and GDP growth of 3.5% in 2022 and 2.5% in 2023, the economy began to slide towards stagflation. Out of inertia, GDP did increase

by 1.8% in 2022, but this year it may even be negative.¹ The negative economic trends were accompanied by the highest inflation in 70 years, which was further escalated not only by the situation on the energy market but also by the increase in public spending during the pandemic.

However, the crisis is not just about economic indicators. In the chaos of war, factors which could permanently change the conditions in which national economies function have gained in importance. This mainly concerns geopolitical tension, the intensifying confrontation between the global powers and the risk of a global military conflict. This made it necessary to ask questions about the chances of maintaining the current economic model, and in fact they have been asked during the debate on the *Zeitenwende*. In particular they concerned globalisation and the dependencies it causes, the return to the path of growth in new, more difficult conditions and faced with the additional challenge of energy & digital transformation, and finally, strengthening economic integration. The crisis of war and the possible intensification of international competition should encourage the EU to enhance its economic cooperation and strive for a genuine fiscal, banking and capital markets union. These moves would enable the EU to invest more in its development and compete on more 'sovereign' terms with global powers.

Globalisation: de-risking instead of decoupling

Dealing with the consequences of Germany's excessive energy dependence on authoritarian Russia was a pivotal experience for it in 2022. This involved a dramatic increase in costs, especially for industry, and the need to look for new suppliers. This was coupled with the effect of the sanctions imposed on the Russian Federation. This situation has led to breaking direct economic relations with this country on a massive scale.² In February 2023, exports to Russia fell 60.5% year on year (from €2.1 billion to €0.8 billion), and imports by 91% (from €3.7 billion to €0.3 billion). In the ranking of Germany's trading partners, Russia fell from 11th to 46th place.³

An analysis of the causes of the disaster in Germany's political and economic relations with Russia must have provoked it to think through the limits of its

¹ 'Was der Krieg in der Ukraine für die deutsche Wirtschaft bedeutet', German Chamber of Commerce and Industry (DIHK), 23 February 2023, dihk.de.

² It cannot be ruled out that trade is continuing through intermediaries registered in such countries as Turkey, Kazakhstan and the United Arab Emirates.

³ 'Importe aus Russland im Februar 2023 um 91,0 % niedriger als im Vorjahresmonat', German Federal Statistical Office (Statistisches Bundesamt), 13 April 2023, destatis.de.

dependence on other countries. It also had to look closer at the essence of the economic globalisation that has been developing over the past decades. Its cornerstones were the removal of barriers in the exchange of goods & services and the flow of capital. This, in turn, supported the market logic of choosing efficiency and profitability as the main criteria for the cooperation and selection of its economic partners. The idea of total economisation, however, extended further: the global market was supposed to eliminate the risk of armed conflicts between interdependent states, because war was not profitable for anyone. The ultimate goal was a 'flat world' with convergence of GDP levels and the gradual unification of political systems towards democratic solutions and the universal defence of human rights.

This model of globalisation has been especially beneficial for Germany. Thanks to it, in the period after the World War II this country became an export power which achieved huge surpluses in foreign trade and earnings on its investments. This model also brought political benefits: trade was supposed to ease ideological tensions and systemic confrontation in the international community, which were dangerous for Germany as it had been a frontline state during the Cold War. This mindset gave rise to the idea of 'change through trade' (*Wandel durch Handel*)⁴ which justified the expansion of economic ties with autocratic regimes. In recent decades this approach was crowned by cooperation with China and Russia, which were to have become 'like us'.

The Russian attacks on Georgia and Ukraine, Beijing's confrontational policy towards Taiwan and the worldwide expansion of autocratic methods of government have shown the limits of this vision. While neoliberal globalisation has undoubtedly offered huge economic gains, their distribution has empowered non-democratic regimes and given them the economic tools to implement aggressive policies.

The current crisis may lead to one of the following three scenarios coming true:

- The first scenario envisages general deglobalisation, driven not only by intensifying political confrontation but also by protectionism and the need to support national economies. Such tendencies became apparent during the presidency of Donald Trump and during the global COVID-19 pandemic. The process of decoupling could lead to the weakening of current ties and the emergence of numerous smaller economic blocs.

⁴ F. Bösch, 'Handel durch Wandel' [in:] D. Deckers (ed.), *Facetten der Gegenwart*, 52 F.A.Z.-Essays aus dem Epochenjahr 2022, Brill-Schöningh, 2023, pp. 408-417.

- The second scenario assumes a division of the globe into the ‘free world’ zone where democratic states cooperate, and a club of authoritarian regimes centred around China. This approach could be referred to by the catchphrase ‘friendshoring’, meaning investing in ‘friendly’ countries which share the same value system.
- In the third scenario, the current formula of globalisation will be maintained and there will be a gradual return to business as usual. This is very likely, primarily considering economic logic and the argument that global challenges, such as the fight against climate change, require maintaining open space and cooperation mechanisms between rivals.

The German stance on these scenarios is far from clear. On the one hand, it is often argued in the debate that it is essential to reduce the risks linked to economic globalisation and to dismantle critical dependencies on authoritarian rivals. On the other, there is a strong faction which wants to keep the economic benefits offered by the global economic space and warns against multiplying trade barriers.⁵

These dilemmas are best seen in relation to China, Germany’s largest trading partner, the trade volume with which was close to €300 billion in 2022 (Destatis). Since the Russian invasion, distrust towards the influx of foreign capital from China has clearly increased, and the government has begun to look more closely at its investments in critical infrastructure sectors (such as energy supply, ports and telecommunication infrastructure). This was facilitated by the investment review procedure implemented in the previous decade by the Federal Ministry for Economic Affairs and Climate Action, which even allowed some investments to be blocked. The procedure was applied during the attempt by the Chinese logistics company COSCO to acquire major stakes in the Container Terminal Tollerort in the port of Hamburg in autumn 2022. This provoked a heated dispute in the government as to whether elements of critical infrastructure such as terminals could be sold to foreign entities. The Greens were in favour of blocking the deal, while the SPD opted for a more conciliatory approach. Eventually, Chancellor Scholz pushed through consent for COSCO to purchase a 24.9% stake in the facility, a figure below the threshold that would have allowed the Ministry for Economic Affairs and Climate Action (controlled by the Greens) to intervene.

⁵ ‘German finance minister warns against quick decoupling from China’, Reuters, 22 January 2023, reuters.com.

The use of devices made by Huawei in Germany's telecommunication infrastructure (in particular, data transmission over the mobile network) also provoked disputes.⁶ The Chinese company had for years been supplying equipment to Germany's largest network service providers, Deutsche Telekom, Vodafone and Telefonica. It turned out that the use of Huawei's components to expand the 5G network generated serious security risks. Finally, at the beginning of 2023, the Federal Ministry of the Interior sent a letter to the operators calling for these components to be withdrawn. However this step is still the subject of considerable controversy, as it may lead to a significant slowdown in the construction of the latest generation networks and an explosion of costs. Furthermore, there are obvious inconsistencies in the actions taken by German entities: for example, the state-owned company Deutsche Bahn has announced that it intends to continue using Chinese parts.

However, a tougher stance on China's involvement in the construction of critical infrastructure does not mean that Germany has become a supporter of extensive decoupling from this country. There was no talk of weakening economic cooperation during Chancellor Scholz's visit to Beijing in November 2022.⁷ Not only does the German Chancellery look at the trade data (see table), but it also listens to the arguments presented by the boards of directors of large corporations present in China. Sten Ola Källenius, the CEO of Mercedes-Benz, has said that speculation on limiting cooperation is "unthinkable for almost all of German industry". In the case of this company, the Chinese market accounts for 18% of revenues and 37% of sales.⁸

Realistically, then, Germany will respond to the Ukraine war not by decoupling, but at most with 'de-risking', which has become the key word in the latest government strategy towards Beijing.⁹ In practice, this means reducing the interdependencies that run the risk of supplies being interrupted, and balancing the importance of China out with expanding economic ties with other partners – in other words, diversification. One of these potential partners is India, which could become an appealing location for important investments. Proof of enhanced relations with this country include the contracts to expand India's railway infrastructure signed by Deutsche Bahn and Siemens, and the plans to facilitate the immigration of Indian workers to Germany. At the same time,

⁶ S. Plóciennik, 'Lex Huawei. Germany is tightening control over 5G', OSW, 8 March 2023, osw.waw.pl.

⁷ M. Bogusz, L. Gibadło, 'Cooperation in spite of everything. Scholz's visit to China', OSW, 7 November 2022, osw.waw.pl.

⁸ 'Cutting ties with China is 'unthinkable'', Mercedes-Benz CEO tells *Bild am Sonntag*', Reuters, 30 April 2023, reuters.com.

⁹ *China-Strategie der Bundesregierung*, Auswärtiges Amt, 21 July 2023, auswaertiges-amt.de.

Germany is clearly strengthening its presence in Africa and South America, as a way to diversify supplies of rare-earth elements: at present, over two-thirds of some of them originate from China.¹⁰

The strategy of diversifying economic dependencies does not mean withdrawing from globalisation. On the contrary, it is expected to lead to expanding and enhancing international ties. This is why Berlin is still keeping a watchful eye on the threat of protectionism: discriminatory practices against foreign manufacturers, higher tariffs, selective tax breaks, etc. could become key obstacles to new trade flows. Considering all this, there is a deeper meaning behind the German reaction to the US Inflation Reduction Act (IRA), which introduces solutions that could threaten the interests of European producers.¹¹ From the beginning, Germany adopted a cautious approach towards the Act and did not support France, which insisted on a firm response to the US policy, including possible economic retaliation. Germany preferred to focus on negotiations, which were broken off in 2016, and even went so far as to offer a return to the Transatlantic Trade and Investment Partnership (TTIP) project. The idea was to stop the escalation of US-EU protectionist sentiments at an early stage, even if that was unrealistic.

Table. Germany's largest trade partners in 2021 and 2022 (in € billions)

		Exports	
		2021	2022
1.	US	122.0	US 156.2
2.	China	103.7	France 116.0
3.	France	102.2	Netherlands 110.7
4.	Netherlands	100.4	China 106.8
5.	Poland	78.3	Poland 90.4
6.	Italy	75.3	Austria 88.7
7.	Austria	71.9	Italy 87.5
8.	United Kingdom	65.3	United Kingdom 73.8
9.	Switzerland	60.6	Switzerland 70.6
10.	Belgium	50.4	Belgium 61.8

¹⁰ 'Januar bis November 2022: 66% der importierten seltenen Erden kamen aus China', German Statistical Office (Statistisches Bundesamt), 24 January 2023, [destatis.de](https://www.destatis.de).

¹¹ S. Plóciennik, 'The German dilemma: Berlin's response to the trade conflict with the USA', OSW, 5 December 2022, osw.waw.pl.

Imports				
2021			2022	
1.	China	142.2	China	191.8
2.	Netherlands	105.5	Netherlands	120.0
3.	US	72.1	US	92.0
4.	Poland	68.8	Poland	77.6
5.	Italy	65.4	Italy	72.6
6.	France	62.1	France	69.6
7.	Belgium	51.9	Belgium	62.7
8.	Czech Republic	50.0	Norway	61.4
9.	Switzerland	48.9	Czech Republic	58.9
10.	Austria	47.5	Austria	57.8

Source: Statistisches Bundesamt, destatis.de.

New economic growth

The Ukraine war caused a sharp decline in Germany's GDP and an increase in inflation to levels unseen for decades (see charts 1 and 2). Getting out of this stagflation trap will be a major challenge for Berlin. This is because it is not only about the hard (albeit short-term) economic crisis, but also about the accumulation of long-term structural problems within the economy, the seriousness of which was only exacerbated by the Russian invasion. Germany needs to deal with major investment backlogs, especially in the energy and digitisation spheres, which are to a large extent a consequence of the austerity policy adopted by Angela Merkel's government. In addition, the country is losing competitiveness due to excessive red tape, relatively high taxes and demographic factors.

There is no consensus among the German economic elite on how to deal with these challenges. On the one hand, it is argued that the state should play a greater role in the economy by increasing spending on public investments (through setting up more off-budget funds), steering the innovation process and conducting an extensive industrial policy. Inside the government, these ideas enjoy the strongest support from the Greens and the SPD. On the other hand, a large group of supporters of liberal reforms are calling for deregulation and tax cuts for enterprises. These are associated primarily with the FDP and the Christian Democrats, who demand a renewal of the discussion on the 'social market economy'.

The ‘transformative supply-side policy’ (*transformative Angebotspolitik*)¹² idea promoted by vice-chancellor and economy minister Robert Habeck is an attempt to reconcile these approaches. It may seem somewhat ‘complicated’, as he admitted, because it combines quite complex terms. Its most important part refers to supporting supply, and is nothing else than approval of the market’s flexibility. Habeck wants the operating conditions for companies to be improved, taxes to be cut and the economy to be deregulated in order to unleash the forces of ‘spontaneous adjustment’ in the economy, which have already contributed significantly to overcoming the energy crisis. Nevertheless, there is also considerable space in his concept for an active role to be played by the state. This is expressed in the phrase ‘transformative policy’, which stands for mobilising market funds and public resources in order to carry out significant economic changes. In this case, as Habeck stipulates, it is about strengthening the potential of selected industries so that they can decarbonise faster and increase their involvement in new technologies, including the production of batteries, semiconductors, electrolysis installations, solar panels and wind turbines. The incentives for entrepreneurs include reliefs, investment write-offs and targeted funds. It is worth emphasising, however, that this concept envisages interventions within a specific timeframe which will be made only when needed, rather than a systemic and permanent shift of the balance towards state control.

Habeck’s ‘inclusive’ concept is a pragmatic measure aimed at building the broadest possible support. Business circles have actually responded positively to the ideas he has presented, but they have pointed out the need to take specific actions. The Federation of German Industries (BDI) has stated that 2023, dubbed as the ‘year of decision’, will be the true test of the government’s intentions. Chancellor Scholz also has high hopes for the new policy. In an interview he said that “the large investments in climate protection may help Germany temporarily achieve growth rates which were last seen in the 1950s and 1960s”.¹³ Thus, the Social Democrats believe that energy transformation will bring about a new ‘economic miracle’.

In implementing this strategy, the German government will have to face at least two serious challenges.

¹² ‘Zeit für eine transformative Angebotspolitik’, Federal Ministry for Economic Affairs and Climate Action (Bundesministerium für Wirtschaft und Klimaschutz), 27 April 2023, [bmwk.de](https://www.bmwk.de).

¹³ ‘Olaf Scholz verspricht sich Wachstum wie zur Zeit des „Wirtschaftswunders“’, Die Welt, 10 March 2023, [welt.de](https://www.welt.de).

The first concerns demographics. In Q4 2022, regardless of the temporary economic downturn, the Federal Employment Agency registered almost 2 million vacancies.¹⁴ In market research, companies have stressed labour shortages as the most serious challenge preventing them from increasing production and carrying out new investments. The government has no good solution for this problem: mobilising domestic human resources would require another pension reform; this would come at a political cost, and its effects would only become apparent after some years. Another solution is to open up the country to more immigration from third countries (outside the EU), which will entail the need to adjust the act introduced in 2020 and further liberalise employment regulations, especially as regards the recognition of diplomas. Such changes are becoming increasingly difficult to implement due to the rising popularity of the anti-immigrant party Alternative for Germany (AfD).

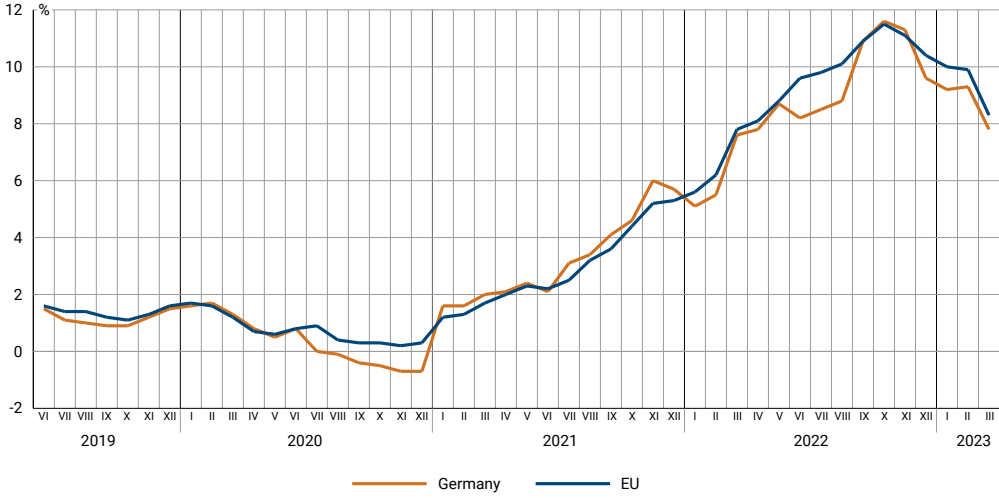
The second challenge is the urgent need to deal with the falling competitiveness of the German *Standort*. German companies are already moving to other countries, attracted by tax breaks, subsidies, subsidised energy costs, and (last but not least) more friendly regulations. Therefore, the catastrophic vision of the 'de-industrialisation' of Germany and the eventual loss of the advantages of the German model is frequently referred to in the public debate. Of course, the government can hope that the announcement of reforms will stop the relocation of production, but in practice it will have to join the subsidy race started by the US and Biden's IRA.¹⁵ These are extremely costly projects. One example is the decision to subsidise Intel's new semiconductor factory in Magdeburg to the tune of €10 billion, a decision which is emblematic of this new era. After long negotiations, the American company decided to implement its huge cutting-edge project worth €30 billion provided that it received a high subsidy.¹⁶ However, if the German government decided to join such a 'subsidy race', that would entail serious conflict inside the government. Ministers from the SPD and the Greens, who are planning further government interventions, will have to confront the liberal Minister of Finance, the FDP's Christian Lindner, who wants to restore the constitutional 'debt anchor' and end the fiscal expansion that has been in place since the pandemic. The draft budget for 2024 which he presented in July 2023 is a clear step in this direction.

¹⁴ 'IAB-Stellenerhebung für das vierte Quartal 2022: Offene Stellen erreichen mit 1,98 Millionen ein neues Allzeithoch', Institute for Employment Research (Institut für Arbeitsmarkt- und Berufsforschung), 9 March 2023, iab.de.

¹⁵ S. Płóciennik, 'The European Green Deal Industrial Plan: is Germany ready to accept more interventionism?', OSW, 6 February 2023, osw.waw.pl.

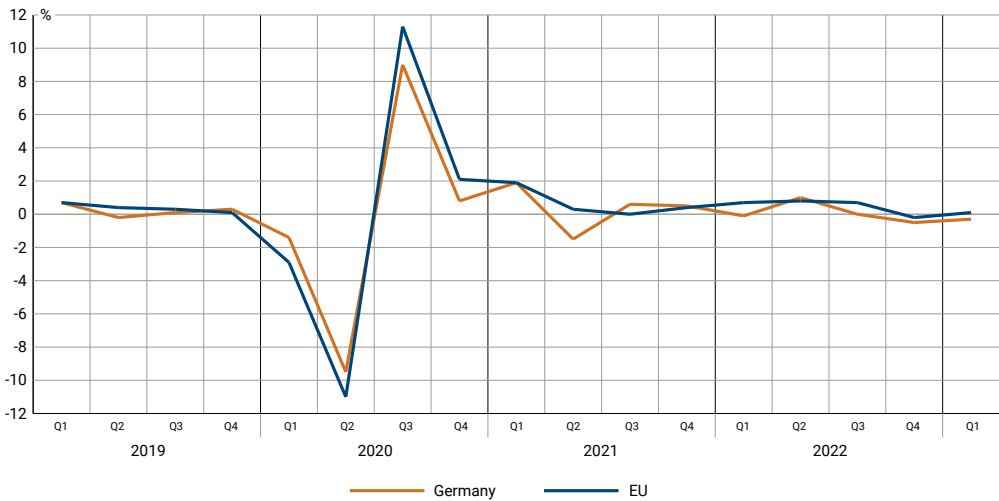
¹⁶ C. Busse, A. Hagelüken, C. Hulverscheidt, 'Deutschland haut die Milliarden raus', Süddeutsche Zeitung, 23 June 2023, sueddeutsche.de.

Chart 1. Inflation in Germany and the EU in 2019–2023 (Harmonised Index of Consumer Prices, HICP; monthly data)



Source: Eurostat.

Chart 2. GDP growth in Germany and the EU in 2019–2023 (year-over-year quarterly data)



Source: Eurostat.

A 'sovereign Europe': time for more fiscal integration?

The situation linked to the Ukraine war and the intensification of global competition for technologies & investments (as exemplified by the IRA) have given rise to questions about the future of economic integration in Europe. The existing model is based on a common market and currency, and relatively shallow fiscal and financial cooperation at the same time. In practice, this means that the national perspective prevails when it comes to public spending on investments or the development of new technologies. One exception from this rule is the NextGenerationEU programme, as part of which hundreds of billions of euros have been offered in grants and loans to combat the effects of the pandemic and support member states' economies. It is worth emphasising, however, that it is formally a one-off and exceptional programme, and Berlin agreed to setting it up on that condition alone.¹⁷ Germany is cautious about creating common financial mechanisms because it fears that they might trigger permanent transfers within the EU. This position is a well-established, even a traditional element of Germany's European policy.

Has the new economic and international situation, which undoubtedly requires enhancing the coordination of joint investments within the EU and strengthening the continent's position in globalisation, prompted Berlin to revise its firm stance? Nothing in Germany's reaction seems to be a sign of this.

Shortly after the Russian invasion of Ukraine, Germany was relieved to see the partial suspension of state aid rules (the Temporary Crisis Framework) announced by the European Commission in March 2022, which made it possible to generously subsidise industries which had been affected by economic problems at the national level. The data published by the European Commission at the end of the year prove that Berlin has benefited most from this; as much as 53% of the total value of permits, which reached €672 billion, went to German entities.¹⁸ This is much more than Germany's share in the EU's GDP or industrial output. These figures caused concern in many member states, as they revealed that Germany was primarily focused on protecting its own economy and thinking less about the European response to the reality of the crisis. This impression was intensified after the Scholz government announced a special €200 billion subsidy programme to mitigate the effects of rising

¹⁷ M. Mühlberger, U. Walther, 'Die deutsche EU-Politik post-Merkel. Grüner, aber finanzpolitisch weiterhin eher konservativ', *Deutschland Monitor*, 27 July 2021, Deutsche Bank Research, dbresearch.de.

¹⁸ J. Liboreiro, 'Germany & France account for most EU subsidies. Here's why it's a concern', Euronews, 17 January 2023, euronews.com.

energy prices.¹⁹ Germany argued that its value had to be that high because the country had suffered particularly severe losses due to its dependence on Russia. As far as integration is concerned, however, it raised questions about distortions of competition and the coherence of the single market.

Germany was granting further business support permits while at the same time inhibiting discussions on a possible joint response to the European crisis. This especially concerned the European Commission's proposal that the EU should create a 'fund for European sovereignty' to use financial assistance to put the EU on a par with the US, in response to the initiatives announced by Washington as part of the IRA.²⁰ Since it was difficult to question the idea itself directly, German politicians resorted to the argument that it was not worth setting up a new fund, as the money from the recovery fund had still not been used: a political decision to transfer them to new positions would therefore suffice.

Since Germany made extensive use of the opportunity to support its own industry, while at the same time rejecting the idea of increasing European spending, one might expect that it would at least agree to ease fiscal discipline in the EU in order to give the governments of the member states a little more space to increase investment outlays. Nothing of the sort happened. When the European Commission proposed a reform of the Stability and Growth Pact²¹ with an option for a more flexible debt reduction path, it was firmly objected by the finance ministry under Lindner.²² Berlin insists that the rules imposing the 3% budget deficit cap and 60% public debt limit should still be strictly observed. As a consequence, Germany is being criticised more and more by Southern European countries and France; in their opinion, Germany's double 'no' is actually weakening the EU's economy.

Germany's scepticism about the finalisation of the banking union adds to its image as a brake on the processes of reform and enhancing financial integration within the EU. The creation of a single space for banks could facilitate the mobilisation of capital for investments. However, this would require

¹⁹ M. Kędzierski, S. Płóciennik, 'Germany is fighting an energy war: €200 billion will be spent on dealing with high energy prices', OSW, 3 October 2022, osw.waw.pl.

²⁰ S. Płóciennik, 'The European Green Deal Industrial Plan: is Germany ready to accept more interventionism?', *op. cit.*

²¹ 'Commission proposes new economic governance rules fit for the future', European Commission, 26 April 2023, ec.europa.eu.

²² S. Płóciennik, 'Back to discipline: How Germany views the reform of EU budgetary rules', OSW, 3 March 2023, osw.waw.pl.

supranational institutions to be strengthened. To this end, introducing a single insurance for bank deposits is often mentioned as it would reduce the impact of national niches. However, Germany blocked the proposal put forward by Eurogroup's President Paschal Donohoe in May 2022²³ mainly due to protests from German cooperative and public banks, and out of fear that the new institution would turn into a transfer instrument.²⁴

Conclusion

If the *Zeitenwende* in economic policy were to be understood as a new era of the German economic model, then – in a radical version – it could include the following elements:

- firm economic decoupling from dictatorships and building up a form of democratic economic globalisation;
- changing the economic model by allowing the state to play a greater role in the economy and radically increasing public investments, and
- building a European economic federation with its own fiscal policy and management integrated with the banking and capital markets.

However, Germany is far from making such a profound change. Its economy remains oriented towards globalisation, and its political and business elites believe that the current crisis is merely temporary. Hence the concept of de-risking, which actually strengthens the expansion into international markets. The country is responding to the problems by attempting to reconcile the old dispute between liberal supply-side policy and interventionism, this time in order to step up the *Energiewende*. There is hardly any systemic value in this because, for example, the so-called debt anchor has not been removed. There is no visible readiness for a breakthrough in European economic integration, either. The EU is still a project with a clearly limited scope of common funds and transfers.

When seen from the perspective of political economy, this conservative reaction should come as no surprise. The vision of globalisation still serves the

²³ M. Greive, C. Volkery, A. Kröner, 'Neuer Anlauf zur europäischen Einlagensicherung – Bundesregierung läuft Sturm', Handelsblatt, 2 May 2022, handelsblatt.com.

²⁴ S. Plóciennik, 'The limits of integration. Germany is a brake on the finalisation of the banking union', OSW, 24 June 2022, osw.waw.pl.

interests of large German companies that have invested huge amounts of money in, for example, China. Decoupling would thus carry an unprecedented risk for them. In turn, the ‘transformative supply-side policy’ perfectly reflects the aspirations of smaller businesses and the *Mittelstand* sector, which support a pragmatic approach reconciling market and intervention. As for the deepening of financial integration, the explanation for German reluctance can be reduced to the widespread and persistent resentment against ‘transfer mechanisms’ and fears that Germany would become a structural, long-term payer financing less efficient economies (for example, those of Southern Europe).

The resistance also stems from a political calculation and the mainstream parties’ memory that the problems of monetary integration (the euro crisis) helped set the scene for the emergence of the anti-system opposition – the AfD. A move towards a fiscal union in the EU, which would certainly be a radical change, could end up in a political *Zeitenwende*, though not necessarily in the sense that Scholz had in mind during his famous speech.

SEBASTIAN PŁÓCIENNIK