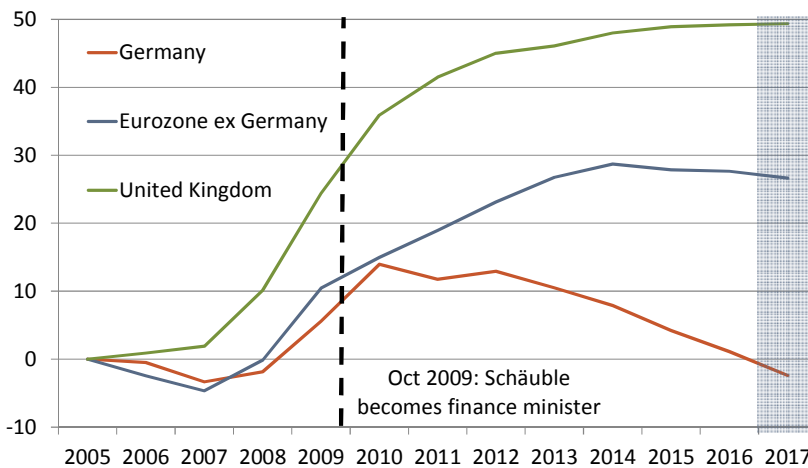




29 September 2017

Schäuble's legacy: prudence with a purpose

Change in public debt in % of GDP since 2005



Shaded area: Berenberg forecast for 2017. Projected debt-to-GDP ratios for 2017: Germany 64.6%, Eurozone ex-Germany 96.7%, UK 89.5%. Source: Eurostat, Berenberg calculations

- **The end of an era:** Wolfgang Schäuble's move from the German finance ministry to the prestigious but more ceremonial presidency of the Bundestag marks the end of an era. Schäuble has been the architect and face of German prudence and the country's tough-love approach to the euro crisis: Germany helps struggling neighbours with generous amounts of money if the recipients sign up to tough conditions to get their house in order for good.
- **Prudence with a purpose:** Criticised abroad more than at home, his approach served a purpose: whenever more money had to be spent, be it to enable Germany's federal states to invest more in infrastructure and education or to deal with the sudden influx of 1.3m migrants and refugees, Schäuble had the reserves to approve the requests without getting Germany back into a fiscal deficit. The surge in employment after the 2004 reforms helped him a lot.
- **In a way, Schäuble will be difficult to replace:** He combines prudence, experience, authority and a somewhat visionary commitment to European integration still rooted in the post-war experience of growing up near the French-German border in an almost unique way. However, does that mean that German policies will now change significantly in a way that would not be happening if Schäuble would be staying on as finance minister? Not really.
- **Who may succeed Schäuble?** The decision will likely be up to Christian Lindner who heads the FDP, the second-strongest party in the envisaged "Jamaica" coalition of Chancellor Angela Merkel's "black" CDU/CSU, the "yellow" FDP and the Greens. Lindner himself and his equally flamboyant deputy Wolfgang Kubicki have made their names as effective campaigners and party strategists, rather than as men of numbers. If Lindner claims the job for the FDP, which looks likely but not fully certain, the list of candidates with some relevant experience could include Volker Wissing, Michael Theurer, Carl-Ludwig Thiele (currently at the Bundesbank), Otto Fricke or Karl-Heinz Paqué.
- **No revolution in Europe:** Germany's approach to Europe is deeply rooted in national interest as well as legal and political constraints. Germany's core interest is to be surrounded by prosperous and reliable friends in Europe. All key decisions in the euro crisis, including the somewhat contentious support programmes for Greece, had been backed in both houses of the German parliament by vast majorities from all mainstream parties (CDU/CSU, SPD, FDP and Greens). If need be, Germany will be ready to put money at risk to underpin European integration. But it will set conditions for that. Give or take a few details, no change at the helm of the finance ministry will alter that. On European issues, FDP views are close to those of Schäuble: ready to strengthen the cohesion of the Eurozone, but not with huge automatic non-conditional transfers. For more, see pages 4-6 of our [guide to the German election](#).
- **A little stimulus at home:** With a fiscal surplus of almost 1% of GDP, Germany has money to spend. Regardless of who becomes finance minister, Germany is heading for some income tax cuts of up to 0.5% of GDP in 2018/2019 and additional spending on infrastructure, education and the digital economy while maintaining Schäuble's "black zero".

Economics

Chart of the week



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