The Uneasy Compromise of Liberalism and Corporatism in Postwar Germany *

Philip Manow

Working Paper 5.88
January 1999

University of California, Berkeley
Center for German and European Studies

Abstract

This paper explains the origins of the postwar German economic order and its surprisingly liberal appearance. It does so in two steps, both of which show how this liberal appearance depends on a-liberal foundations. First, the paper argues that the prewar proponents of ordoliberal theory largely subordinated democratic political principles to the requirements of a market economic order. Second, the paper argues that the functioning of the apparently liberal postwar economy rested on the same Bismarckian welfare principles that ordoliberal theory clearly opposed. The result has been a mixed institutional order, best described as "liberalism by default."

1. Introduction

When he looked back at the first 16 years of the second German republic in 1965, RaIf Dahrendorf remarked that the truly miraculous aspect of the postwar economic miracle was the relatively liberal forms in which it took place" (Dahrendorf 1965: 468). Given the weak German liberal tradition, Dahrendonf found the dominance of economic liberalism after WW II "astonishing" and "surprising" (ibid. 469). This paper addresses the question of how the German postwar economic order came to appear so surprisingly liberal. My answer comes in two parts, and the aliberal, corporatist Bismarckian welfare state which was to be reconstructed in the 1950s along inherited corporatist principles plays a central role in both parts.

First, I claim that the influential doctrine of Ordoliberalism, which is generally understood to "have laid the intellectual foundations for the (...)free market economy in mid 1948" and to have been since then "the quasi-official credo of West Germany's economic policy" (Giersch / Paqué / Schmieding 1992:16), was much less liberal than it is normally perceived. Ordoliberalism as a school of economic thinking began to take shape in the late 1920s and early 1930s as a reaction to the world economic crisis. One of the most important currents in ordoliberal thinking was the vigorous critique of the German corporatist welfare state and its allegedly unhappy marriage with pluralist mass democracy, which ordoliberal thinkers held responsible for the economic decline and social turmoil of the late Weimar Republic. Within this critique Ordoliberalism revealed a very strong authoritarian, anti-parliamentary leaning. Though Ordoliberalism exemplified the traditional "pro-state orientation" of German liberalism, it went beyond the "divorce between liberalism and democracy" (Vorländer 1997: 6) that became characteristic of German liberalism in the mid-19th century. Ultimately the ordoliberal thinkers were willing to compromise democratic principles in order to protect of an allegedly endangered liberal' market order—they were willing to trade political rights for property rights. It is against the background of the "profound distrust (Urmißtrauen) of Ordoliberalism towards pluralist democracy" (Nörr 1994:174) that the establishment of a framework of 'economic self-governance' in post-war Germany—an economy effectively sheltered from political influence—has to be understood.

The second part of the answer claims that the working of the supposedly liberal postwar equilibrium crucially rested on the very same Bismarckian welfare state that the Ordoliberals had opposed so vehemently. The 'non-liberal preconditions for the working of economic liberalism' in Germany were provided by the very same welfare state which the Ordoliberals had attacked so passionately and whose reconstruction along traditional corporatist lines they had opposed so intensely, albeit unsuccessfully, in the 1950s (cf. Abelshauser 1997). If the political success of the Ordoliberals with respect to the design of the economic order meant that the impact of politics on the economy was efficiently restricted in postwar Germany, the rebuilt Bismarckian welfare state helped stabilize a system of industrial self-governance and thus helped to establish a system of corporatist economic coordination within a 'liberal' market environment. Hence, the German welfare state has to be perceived as an indispensable part of the German political economy and a crucial precondition for its successful working in the first three decades after the war. Therefore, I argue, the German postwar settlement did not represent the triumph of economic liberalism, but essentially embodied a compromise between economic liberalism and 'welfare corporatism'. The economic performance of this compromise, however, has considerably worsened over the last two decades and today is in deep crisis.

2. Germany, the first 'post-liberal' nation

There is a general consensus among historians and political scientists that German history offers an especially striking case of the failure of Liberalism as a political movement. National unification left the German liberals divided. In the Frankfurt Assembly of 1848, the liberals were divided into a Prussian Protestant camp that supported German unification under Prussian leadership and a left-liberal, southern, particularist camp that preferred the, *grossdeutsche Lösung',* meaning a unification that included Austria in order to counterbalance Prussian dominance. Later, the Prussian constitutional conflict from 1861 to 1866 led to the split between Progressives and National Liberals, between left- and right-wing liberals, between liberals who fought to democratize Prussia and liberals who fought to unify Germany under Prussian leadership. Bismarck's double strategy—on the one hand, to strive intensely for German unification, on the other, to pursue an aggressive, antiparliamentarian policy, played with impressive political genius on this internal cleavage of the liberal camp. Thus, at the "beginning of the Empire the liberal movement found itself divided and demoralized" (Luebbert 1991: 86). However, Bismarck's polarizing policy against the "black" [Catholics] and the "red International" [Socialist] turned these two political forces into 'negatively integrated', organizationally strong, ideologically hermetic camps or milieux that came to dominate the German party system from the 1890s on. Of the four broad societal camps that emerged in most Western European countries in the wake of mass democratization—Catholics, Socialists, agrarian conservatives and the urban liberal bourgeoisie—the German liberals remained divided, internally fragmented, organizationally weak and therefore with little political influence. Finally, the national liberals became simply the appendix of the reactionary and chauvinist agrarian forces of Eastern Elbia (Lepsius 1966; Luebbert 1991).

The German welfare state is often said to have shown an extraordinary institutional stability, surviving with its basic institutional features almost unchanged through four different political regimes, two world wars, the hyperinflation of 1923/24, the Great Depression of 1928-1932, the post-WWII crisis and German unification in 1990. In order to assess the 'liberal content' of this surprisingly stable institutional structure, it is important to notice that its groundwork was laid in pronounced antiliberal times (Stolleis 1979). German social legislation in the 1880s has to be seen not only within context of the repressive measures against the Social Democratic Party (Anti-Socialist Law of 1878), but also in connection with a pronounced protectionist trade-policy *(Schutzzoll),* with the forceful state-led modernization of the German economy (including the nationalization of the Prussian railways) and with the dominance of conservative over liberal orientations in the Prussian bureaucracy after 1880. The bureaucrats in the central ministries of the Reich and Prussia sympathized with state interventionism and adhered to the idea of a 'monarchy of social reform.' In the influential Prussian Ministry of Trade and Commerce, a group of strong followers of Adam Smith was succeeded by bureaucrats who were influenced by Lorenz von Stein and his doctrine of a 'social monarchy' which tried to translate Hegelian ideas of a *'Sittlichkeit des Staates'* and a notion of the state bureaucracy as the 'general estate' *(allgemeiner Stand)* into practical politics (Lehmbruch 1996; Nipperdey 1993; Vorländer 1997).

Bismarckian social legislation was paternalistic, centralist, étatist, interventionist -extremely so in its initial conception, and still very significantly so after the process of political compromising had watered down some of its most radical elements and had combined state interventionism with older layers of self-governance *(Selbstverwaltung)* and guild traditions of corporatist self-regulation. Welfare entitlements were based on occupational status and not granted as an universal social citizen right. In striking contrast, for instance, to the British national insurance and against the fierce resistance of the German liberals, Bismarck managed to forestall any integration of private insurance companies as well as almost any forms of collective self-help into the new social insurance. This was especially because the Great Depression from 1873 to 1878 had led to a widespread distrust of how the free market worked and had also revealed the shaky financial base of many voluntary mutual schemes. [1] Consequentially, elements of choice were almost totally absent from the new social schemes. Workers and firms were forced into the new administrative structure of accident and health insurance. These insurances had the status of bodies of public law *(Körperschaften öffentlichen Rechts).* They subsequently crowded out many forms of workers' collective self-help or employers' welfare schemes à la Krupp, Zeiss, or Stumm.

To the extent that voluntary schemes *were* integrated into the new welfare state, as in the case of company health insurances or the free funds *(freie Hilfskassen),* their character and legal status changed. Insurance became obligatory, state regulation was tight. The administration of the welfare scheme was run either by civil servants (old-age insurance), by employers alone (accident insurance) or by both workers/unions and employers (health insurance, where workers held a 2:1 majority).

The element of self-administration of workers (later unions) and employers in the social insurance administration paved the way toward incorporating the organized interest groups of labor and capital into the (welfare) state's administrative structure. it provided unions and employers associations with important organizational resources (cf. Ma now 1997). German *organized* -or perhaps more precisely—*coordinated capitalism* is based centrally upon the formal, legally backed integration of business and workers/unions into the welfare state. The "proto-corporatism" introduced by the Bismarckian social insurance legislation "laid the groundwork for the full-fledged corporatism of Weimar and adumbrated the main lines of West Germany's 'social partnership'" (Steinmetz 1993: 44). The Bismarckian welfare state thus has to be understood as a central, if not the most central element in what Werner Abelshauser has described as the emergence of a "modern system of corporatist interest intermediation" (Abelshauser 287). The new administrative structure of the Bismarckian welfare state represented probably the most important opportunity structure for the growing interpenetration between state and societal interest groups, and in particular for the establishment of a framework of 'compulsory cooperation' between labor and capital under state surveillance.

While the interventionist push in the last quarter of the nineteenth century was certainly not liberal, even often decidedly anti-liberal (Stolleis 1979), neither was it reactionary nor conservative in the sense of an attempt to preserve the status quo. Quite to the contrary: As a result of the forceful state-led modernization with which the German administrative elite rationalized the societal order, Germany became the "first *post-liberal* nation" (Abelshauser 1984). The country established an especially modern form of interest intermediation, 'sharing public space' (Colin Crouch) with organized societal interests and willing to use "functional organizations as co-opted agents of order" (Crouch 1986:189). Bismarckian social legislation in particular marked the birth of many "historically durable 'modern' elements in German economic policy" (Abelshauser 1984: 289). Modern, but certainly not liberal.

3. The rise of 'authoritarian liberalism'

After WW I, the two big *aliberal* parties, the Catholic Center party *(Zentrum)* and the SPD dominated the political landscape. They were the two most prominent and influential members of the 'Weimar coalition,' i.e. the parties that were loyal to the new constitution and republic. And nowhere could both parties, the Center party and SPD, agree on a common position more frequently and more easily than in questions of social policy. Heinrich Brauns, a Catholic priest and member of the Center party, served as minister of the Reich Labor Ministry *(Reichsarbeitsministerium,* RMA) from 1920 to 1928, representing an extraordinary instance of continuity and stability within a context of extreme political volatility. [2] The upshot was that the labor ministry could follow a relatively coherent political strategy, formulated by a ministerial bureaucracy with a strong Catholic leaning. The RMA bureaucrats were less hostile towards the Weimar Republic than many higher civil servants in other Reich ministries or the judiciary, and they were clearly less reactionary than the military. They were, however, also above any suspicion of adhering to liberal ideas. The ministry held a position that generally favored a further extension of the welfare state, a position also prevalent in the Center party. The pro-welfare stance originated in the Catholic social doctrine, but also from three more pressing political considerations: the wish to support many Catholic charitable organizations, hospitals, kindergardens, asylums, and of course the Christian unions. Secondly, the need to keep Catholic workers as members and voters of the Center party; and thirdly, the ministry's simple desire to protect and possibly to expand its domain of administrative responsibility.

With the depression worsening and the paralysis of the political and the industrial relations system growing at the end of the 1920s, the labor ministry took an increasingly interventionist position. This is most apparent in the RAM's switch from 'voluntary' to 'compulsory arbitration' in industrial conflicts in the late 1920s (Bähr 1989). This switch expressed the RAM's growing distrust of and impatience with the organized interests of labor and capital. At the same time, the RMA bureaucrats increasingly lost confidence that the political parties would be capable of enacting the austerity measures that were—in the bureaucrats' view—urgently needed to overcome Germany's fundamental economic crisis. After several cases in which the ministry's proposals for welfare cuts or even for only more moderate increases in social spending did not gain the consent from the parliamentary majority, the ministry changed course and enacted a harsh austerity course with the help of emergency decrees under the presidential cabinets' of Brüning and von Papen. The RAM's strategy of 'conservative stabilization' (cf. Geyer 1991) was not only without the consent of the parliamentary majority, but was pursued even against the expressed will of the parliament. The higher civil servants increasingly shared the view of conservative critics and of German employers who blamed an irresponsible and undisciplined parliamentarism *(ungezügelter Parlamentarismus)* and the Weimar party-state *(Parteienstaat)* for the grave crisis of the republic and the German economy (cf. Geyer 1991). German industry was seen as being overburdened with social costs imposed on it by irresponsible politicians who tried to outdo each other in handing out much too generous welfare benefits. Thus, the conservatives launched a dual attack on both the political system of the Weimar Republic and the German welfare state. It is not by accident that the last cabinet of the Weimar Republic to be legitimized by parliament fell in 1930 over the decision to raise contributions to the unemployment insurance.

The pronounced criticism of the Weimar *Parteienstaat* was not only formulated by young radical conservatives like Carl Schmitt, Hans Freyer, or the chief political adviser of von Papen, Walther Schotte (1932), but was also in essence shared by the group of thinkers who were to become known after WW II as the founders of German *Ordoliberalism* or *soziale Marktwirtschaft* (social market economy): Alexander Rüstow, Alfred Müller-Armack, Walter Eucken, Leonard Miksch to name but a few. Two central papers that are perceived until today to be the founding manifestos of this new school of German economic thinking were written when the depression reached its peak in 1932: Walter Eucken's "Staatliche Strukturwandlungen und die Krisis des Kapitalismus" and Alexander Rüstow's short and very pointed statement "lnteressenpolitik oder Staatspolitik?" [3] Both papers—and other liberal' contributions from the same year [4] —in general shared the fundamental criticism of the parliamentary system formulated by thinkers of the conservative revolution. The central message in the contributions of Eucken, Rüstow, and others was that the present crisis of the German economy and society resulted from a *political* crisis, from a crisis of the political and constitutional order of Weimar. In their view, it was not a sign of a (secular) crisis of capitalism. Eucken and Rüstow did not offer an economic explanation for the crisis, but a—at times crude—economic theory of politics for why Germany had run into such serious trouble.

For Eucken and Rüstow, the systematic interpenetration of the political and the economic system (what we would probably today call "corporatism"), which had been inherited from the empire and enlarged during the Weimar Republic, was precisely the cause of the crisis. What might have been bearable, perhaps even desirable under the Wilhelmian regime—the organization of societal interests into broad and powerful organizations—became now under conditions of universal suffrage a threat to the economic order: "Democratic parties that organize the masses and interest groups exert an increased influence on the government and thus on economic policy." And these parties were held responsible for a growing "dis-organization of the economy by the state" (Eucken 1932: 306, 315; see also Müller-Armack 1932: 113-117). Since political parties were closely linked to clearly delineated groups, classes, strata, socio-economic milieux or camps, mass democratization made the state receptive to, if not totally enslaved to these organized interests. The state, that is, the political parties which run the state, became the instrument of economic interest groups (ibid. 307). State action could only take place by way of horse-trading ("Prinzip des Kuhhandels", Rustow 1959 [1929]:91) between the parties to the mutual advantage of their clientele but at the expense of the general welfare. In the view of Rüstow, Eucken, or Müller-Armack, organized interests forced the modern "interventionist" state to serve exclusively their particularistic needs. In their diagnosis —which was as vague as it was polemical—these 'liberal' thinkers accused pluralistic mass politics for the sorry state in which the German economy and society found themselves.

For Eucken and Rüstow the cure for this ill was obvious: government was to regain "strength vis-à-vis sectional interests and to preserve its status as the impartial and incorruptible arbiter of the economic process against short-term interventionist temptations by limiting its own scope to a few essential tasks" (Giersch/Paqué/Schmieding 1992: 29). Only a strong state was able to gain this autonomy, to stand "above all groups, above all interests" (Rüstow 1932 [1986]: 69-70), exercising "authority and leadership" [Führertum], "strength and independence" (ibid.). The state—as Walter Eucken put it—should "free itself from the influence of the masses" (Eucken 1932: 318; see Müller-Armack 1932:126 "a state which regains in the economic sphere full sovereignty over all particular interests"). While we commonly associate with liberalism a pronounced scepticism if not outright distrust of the state and its potentially predatory character, these early foundations of German Ordoliberalism revealed profound authoritarian dispositions. [5]

Under the label of a new liberalism, Eucken or Rüstow proposed to re-establish a strict boundary between state and society, to make the political system (again) independent from any societal interests and to guarantee a new stable economic order through a radical "liberal interventionism" (Rüstow 1932 [1986]: 67). This radical reorganization of society and economy had to be pursued by a strong, meaning fully independent, state. In his call for a strong state, Rüstow, for example, explicitly and affirmatively referred to Carl Schmitt's notion of the "total state" (Rüstow 1932 [1986]: 68). Eucken as well referred positively to Schmitt's writings and also used his notion of the 'total state' (Eucken 1932: 307 and 319). The program of liberal interventionism was thus in broad agreement with Schmitt's plea for a transformation from the 'quantitatively total,' weak, pluralist state of Weimar to the 'qualitatively total,' strong, authoritarian state of the future, which Schmitt had proposed in the very same year, 1932, in his famous speech before the Langnamverein (cf. Schmitt 1932). [6] Schmitt himself had pointed out in numerous articles the dilemma of a true modern liberalism that attempted to remain noninterventionist (see Schmitt 1931: 152-154). If the 'old liberalism' of the nineteenth century was essentially a program of laissez-faire that called for a clear separation between the *state* and the *economy* and for the abstinence from any specific interventions into the market, the new liberalism, which scholars like

Rüstow and Eucken advocated, was one that wanted to separate the *state* (and its economic policies) from *parliamentarism* and *partisan politics* in order to secure that state interventions into the economy would be 'reasonable,' 'appropriate,' independent, and would serve the general welfare, not particular interests. Given that mass parties and powerful interest groups allegedly hold the state hostage, and given the enormous need for corrective state measures in a modern economy, a true liberal program in the view of these thinkers could not ascribe to the state a residual, minimal role. Quite to the contrary: it was the role of modern mass politics that had to be minimized.

Thus, the liberal demand 'to free the economy from the state', to de-state the economy *(Entstaatlichen der Wirtschaft)* was at the same time a decidedly antidemocratic one. And Herrman Heller was right to remark that the call for the state's retreat from economic affairs meant first that the state should retreat from its historically accumulated obligations in social policy (Heller 1933 [1992]: 652). Again it was the corporatist Bismarckian welfare state that was one of the main targets of the ordoliberal critique, since the welfare state was also at the center of the corporatist complex as the institutional and regulatory framework in which German employers and unions pursued their interests. To demand a withdrawal of the state from the economy at a time when the depression was at its zenith was of course an attack on the unions and their last sources of political and economic power, that is, an attack on social protection. It meant tearing down the walls that contained the market precisely at the moment when the market had — with clear and devastating social consequences — had failed to function. While it is usually the welfare state's obligation to correct the most flagrant social damages caused by a defunct market, in the Germany of the early 1 930s the welfare state was perceived as the problem, not as the solution. The crisis was understood as having political causes—and the remedy thus had to be political as well.

The 'new liberalism' proposed by Eucken, Rüstow, and others was *economic* liberalism without any element of *political* liberalism. In fact, to achieve a liberal economy, to rebuild a 'healthy economy within a strong state,' Rüstow and others tolerated, even proposed to use authoritarian means. Müller-Armack, who was later to become the first section chief of the newly founded *Grundsatzabteilung* (planning section *[Hauptabteilung I, Wirtschaftspolitik])* of the ministry of economic affairs and state secretary under Ludwig Erhard from 1958 to 1963, sympathized with Italian fascism (Müller-Armack 1932:126-127) and in 1933 enthusiastically welcomed the new order (Müller-Armack 1993; see Lange-von-Kulessa/ Renner 1998: 81-86). Rüstow's political position was ambiguous, to say the least. [7] In order to fully understand the political implications of his pointed call for a state 'above all groups and above all interests,' one has to recall that these lines were written at a time when the reactionary and antiwelfare von Papen government ruled without parliamentary support, backed only by Reichsprasident Hindenburg and tolerated—at least in the beginning—only by the Nazis and the other parties of the extreme right. It was an open secret that Rüstow sympathized with the von Papen government and with Italian fascism as well (cf. Haselbach 1991: 205). Already in 1929 Rüstow had contemplated about the feasibility of a "dictatorship within the confines of democracy" (Rüstow 1959 [1929]), and his concern for the maintenance of an overall democratic framework became weaker the more Germany's political and economic crisis endured. In fact, Rüstow's position in many respect resembled that of Carl Schmitt or Walther Schotte. Despite fundamental disagreement over the need for extensive central planning, Rüstow, like Schmitt or Schoote, also referred frequently to the notion of a new division between state and society or economy. [8] It was Herrmann Heller who provided us with a clear-sighted account of the contemporary debate in showing that the 'new liberalism's' demand for a strict division between economy and state could be achieved only through antidemocratic means. In the end, the so-called 'radical liberalism' was nothing but an "authoritarian liberalism" (cf. HeIler 1933 [1992]), or, more precisely, it was not a liberalism in its true and full sense. [9] Devoid of any powerful political addressee responsive to their call for a 'willed liberal order,' German liberals (or what came near to that) had to seek redress from the state—if necessary, from an authoritarian state. As was to become clear again after the second world war, in the concept of German Ordoliberalism solely "Ordo is necessary and absolute, while Liberalism is only contingent and relative" (Nörr 1993: 13). [10]

4. Liberalism by default

After 1945, the young Federal Republic was in urgent need for policies that signaled a sharp break with the past. The recent past had been much more authoritarian than anybody who had dreamt of a revival of the strong, 'qualitatively total' state in 1932 could have anticipated. With state interventionism so heavily discredited, the emphases changed: the wish for state-strength, authority, and "leadership" *(Führertum;* cf. Rüstow 1932:70) receded into the background and liberal liberalism came to the forefront. The new economic doctrine was legitimized by a number of factors, namely the label liberal, the fact that some members of the Freiburger Kreis had emigrated (Röpke und Rüstow) while none of them had been severely discredited, [11] and the "powerful myth of the 'social market economy' as a supposedly fundamental post-war political innovation" (Lehmbruch 1992: 33). Of the many collective myths that necessarily stood at the beginning of the second German republic, the myth that the doctrine of Ordoliberalism was a new, liberal, noninterventionist concept was to become the most prominent and the most long-lived of all.

The postwar German political system was a system with many veto-points, making the West German state only a "semi-sovereign" state (Katzenstein 1987; cf. Schmidt 1989). With an independent central bank *(Bundesbank),* a powerful constitutional court, an influential second chamber through which the *Lander* had gained a decisive role in nearly all matters of political importance, and the autonomy of unions and employer associations in industrial relations—the young republic seemed to be firmly based upon lessons learnt from the dangers of the 'total state.'. Lessons were drawn not only from the Nazi disaster, but also from the failure of the parties of Weimar that were held responsible for having paved the road for Hitler. The new distrust of a powerful central state and a mighty bureaucracy, now further strengthened by the negative example provided by communist East Germany, was complemented by the older distrust of the political parties. And the concept of a 'social market economy' still contained these deep prejudices about ultimately ,volatile, unreliable and irresponsible politics. As became clear again, "pluralist democracy had always remained alien to Ordoliberalism" (Nörr 1994:174). In this situation, the new 'liberal' equilibrium incorporated neither the old program of strict non-interventionism nor the kind of authoritarian liberalism so in vogue before 1933, but was comprised rather by a system of decentralized and 'functional' interventionism, a system I would like to call 'liberalism by default'. A central feature of the postwar equilibrium was that important decisions were effectively sheltered from 'undue political interference' but that the room for general political discretion was substantially restricted. The proliferation of veto-points did not simply institutionalize a system of non-interventionism. Rather, it allowed for targeted intervention in specified domains by specialized agencies like the *Bundesbank* or the *Kartellamt* (Federal Cartel Office). At the same time, the existence of multiple veto points forced political actors to resolve conflicts among contending interest groups by way of bargaining and 'amicable agreement.' In other words, the proliferation of veto points institutionalized Germany's *Verhandlungsdemokratie.* It thus imposed very effective restraints on the unrestricted effects of political competition and partisan politics and on the sovereign powers of an elected government. At the same time, however, the restoration of the German welfare state along traditional corporatist lines insured that the ordoliberal order would not result in the free rule of the market, but would instead work through the *organized interests* of capital and labor offering them multiple opportunities for long-term coordination.

Many answers are relevant if one wants to explain the stability and legitimacy of the new order, its impressive economic performance, and, finally, the lower intensity of state intervention. The stability of the new international order certainly has to be mentioned in this respect (see Eichengreen *1996;* Maier 1987:153-184). Here however I will focus subsequently on the *domestic* preconditions for the functioning of this new order of 'embedded liberalism,' in particular on the German welfare state and how it crucially underpinned an open and allegedly 'liberal' economic order. In order to do so I will present two stylized examples. The first example addresses the interplay between the unemployment insurance and the autonomy of collective bargaining. The second explores the relation between the independence of the German Bundesbank and the buffering capacity of the German welfare state. My central argument is that Ordoliberalism not only represented a very peculiar, distorted version of liberalism, but that its success after WW II depended crucially on the support provided by the aliberal, corporatist German welfare state. It is no surprise that the German Ordoliberals, who vigorously opposed the reconstruction of the Bismarckian welfare state in postwar West Germany (Cf. Hockerts 1980: 377-394; Abelshauser 1997), could not appreciate the central role which this welfare state played for the stability and efficiency of the new 'liberal' order. However, my claim is that the irony of the German postwar equilibrium lies in the fact that the aliberal Bismarckian welfare state was indispensable to the functioning and success of the seemingly liberal social market economy.

(1) Unemployment insurance and Tarifautonomie:

A rather inconspicuous paragraph in the German unemployment insurance law holds that no unemployed person has to accept a job offer if the job's wage falls below the level set by unions and employers associations in collective bargaining (see § 103 para. 2 *Arbeitsförderungsgesetz* [AFG]). [12] What is the effect of this seemingly marginal paragraph? First of all, § 103 AFG restricts the flexibility of wages, since it secures that the lowest wage group defined in the collective contracts between unions and employers defines at the same time the workers' reservation wage. German trade unions are industrial unions. They traditionally pursue a solidaristic wage policy that strives to narrow the wage spread within an industry (cf. Streeck 1997). The upshot is that wages for the unskilled are often 'too high.' Since firms cannot expect to find workers willing to work for a wage that is below the level agreed upon in collective bargaining, they will not offer these low-paying jobs in the first place. Instead, they will try to 'rationalize them away' through capital investments (cf. Paqué 1998: 79).

Hence, § 103 AFG quite efficiently prevents wage flexibility especially in low productivity jobs. German labor law applies to all firms, no matter if the firm is a member of an employer association and thus covered by collective bargaining agreements or not. Thus, § 103 AFG can in a highly effective way secure the extension of collective bargaining agreements to the entire industry. This is the main reason why the often mentioned provision of the *Tarifvertragsgesetz* (collective bargaining law; TVG) that authorizes the

German Labor Ministry to declare collective agreements as generally binding (§ 9 TVG; *erga omnes* rule) has only rarely to be invoked. [13] Moreover, if provisions of the unemployment insurance law make collectively bargained wages *de facto* binding for the entire industry, the power of trade unions is less strongly linked to the sheer size of their membership. Thus, unions are less forced to attract members by following a confrontational course towards employers. A medium degree of union density with the unions' core members in strategic plants or subsectors usually suffices to secure good wage settlements. [14] Hence, less adversarial capital/labor relations can prevail, which in turn are a critical precondition for a skill- and trust-intensive production model that is based upon long-term cooperation between the core workforce and the management.

What guarantees that the steady supply of highly skilled workers — other crucial precondition for such a high quality/high productivity production model — is actually met? The fact that the supply of skills meets the demand for skills is again crucially related to the fact that wages are uniform across firms of the same industry. Uniformity of wages is critical for the functioning of the German system of vocational training. If wages are regulated on an industry-basis, (competing) firms have no incentive to poach young skilled workers from each other through mutual outbidding (cf. Soskice, Hancké, Turnbull, Wren 1997: 43-45). Hence, firms can train young apprentices without having to fear that attractive wage-offers will lure young workers away from them once training is completed. Firms that invest in training need not fear that other firms will enjoy a free ride thanks to their investments. Since wages are collectively and uniformly set and not left to the discretion of a single firm, bigger firms can offer relative job security instead of higher wages as an incentive to keep able young apprentices. Hence, big firms often train apprentices beyond their demand, benefit from this supply of relatively cheap (but already highly productive) workers, and additionally have the opportunity to pick the best candidates for further employment. Within this model, skills are transportable, big firms—and the artisan sector—produce an oversupply of skilled workers, and firms are even interested in having a certain number of trainees leave the firm after training!

Why do workers achieve these skills if it is unclear whether they will later be employed by the company training them and if they risk losing their investment in such training? In Germany, the level of collectively bargained wages depends upon skill levels, that is upon the worker's formal qualification, irrespective of a firm's size or its economic success. Since wages are equal within the same industry, trainees will earn the same wage with other employers. Moreover, since unemployment benefits are strictly coupled with previous wages and—in the case of apprentices, who usually have not yet earned their own wage—to the wage level that a 'similarly qualified worker' would earn in gainful employment, the investment in the achievement of skills pays off nonetheless. This is in particular true given that the probability of unemployment and the average duration of unemployment correlate significantly with the level of skills, e.g. the lower the level of skills, the higher the probability of unemployment. This, of course, again illustrates how the relative high wage level in Germany motivates employers to substitute low productivity/low skill work with capital investments. Finally, the period of apprenticeship is counted toward entitlement in the unemployment insurance, so that young workers are not disadvantaged by seeking training. The very demanding acceptability criteria of the German unemployment insurance ensure that workers will be relieved from the pressure of quickly accepting a job below their formal qualifications, thus losing their investments in their skills. German unemployment insurance allows for a long search period and thus protects human capital investments (cf. Paqué 1998). These skills have been acquired within a system of vocational training, the working of which is critically based on uniform sector-wages that, in turn, are grounded again upon legal provisions of the unemployment insurance.

This stylized example of the interplay between the German welfare state, which is particularly designed to serve the interests of the 'social partners', and the system of collective bargaining may demonstrate the high degree of complementarity between both spheres that rendered any state activism in favor of concertation or central corporatist coordination between capital and labor superfluous. As this example shows, what has become known as the 'German model' could indeed function without much state interference. The performance of the German system of economic and industrial relations resembles in many respects those of the traditional corporatist countries, without sharing the central institutional features usually associated with social corporatism (a point well argued by Thelen 1989). Interventionism did not loom large in postwar Germany not because it was not wanted, but because it was not needed. [15] I claim that the framework of incentives and constraints provided by the German welfare state for the economic actors is one very important explanatory factor for the high capacity of economic coordination of employers and unions, e.g. in the domain of collective bargaining, without *direct* state involvement.

(2) Old-age Insurance and Central Bank Independence:

Wage restraint is not a serious problem for German unions. Given that the principle of *Tarifautonomie* rules German industrial relations, collective bargaining does not take place in 'the shadow of hierarchy,' i.e. under the threat of state intervention, but in 'the shadow of the independent Bundesbank.' The German central bank—strictly committed to a nonaccommodating monetary policy—has sufficiently proven in the past its will to instantly punish any inflationary wage settlement by "retaliatory interest rate increases" (Soskice et al. 1998: 41). This lesson was painfully learnt by the unions in the mid-1970s

(cf. Scharpf 1987). Within this system of "institutionalized monetarism" (Streeck 1994:118; cf. Hall 1994) wages and working conditions are set through sectoral collective bargaining, in which the metalworkers' union, the IG Metall, most often took the lead. Pilot agreements in key branches and regions of the metalworking sector serve as a point of reference for the rest of that sector and are adopted by other branches as well. If the uniformity of wages *within one sector* is secured with the help of the German welfare state (see the above example), the relative uniformity of wages *between sectors* is due to this pattern-bargaining. IG Metall's wage demands usually remain within the limits set by increases in productivity plus the rate of inflation. Wage demands thus essentially mirror the publicly announced growth in the money supply to which the Bundesbank commits itself each year, taking into account exactly these two factors: "The expected growth of real productive potential and 'unavoidable' inflation" (Streeck 1994:123). Other unions are eager to reach wage settlements that do not fall below these "landmark" wage deals of IG Metall. However, given the considerable productivity gains in manufacturing, the compressed wage structure in the German economy (cf. Streeck 1997), and the relatively high minimum wage as defined by the level of social assistance, even economically 'responsible' wages in the manufacturing sector are usually too high to allow for significant job growth in the lower labor market segments and in sectors with lower productivity, in particular in the service sector. The German high wage/high productivity strategy was viable as long as the Bismarckian welfare state could take care of (the limited number of) those excluded from the labor force and as long as the strong performance of the German export industry enabled a relatively high percentage of the entire labor force to be employed in the manufacturing sector.
Central concertation had no prominent place and rationale within this framework of covert economic coordination or "industrial self-government" (Flanagan/ Soskice/ Ulman 1983: 276). Central, concerted, deliberately reached agreements between the peak associations of labor and capital under state surveillance are not typical for German industrial relations and industrial policy. Hence, Keynesianism could never really take hold in Germany even during its heyday in the early 1970s (Allen 1979). The same is true for corporatism, understood in the traditional sense as a nationwide, tripartite, political exchange between the state and the leading associations of capital and labor that is comprised of wage restraint, a commitment to a full-employment policy via expansionary fiscal policies and business cooperation.

The 'institutionalized monetarism' of the German political economy secured by the independence of the Bundesbank prohibited macro-economic adjustments to economic slumps like a strategic depreciation of the D-Mark or massive deficit spending on the part of the state. At the same time sticky and uniform wages, legal provisions offering generous employment protection for German workers, and powerful unions made adjustments through large-scale dismissals by and large unfeasible. (Vitols 1996 labels this the German 'labor constraint.') Given that the German production model's comparative advantage lies in a strategy of "diversified quality production" (Wolfgang Streeck) or "high quality incremental innovation/HOI I" (David Soskice), which is based upon long-term commitments between workers and managers, a flexible labor market strategy would not have been compatible with the German high trust/high skill strategy anyway. Moreover, as we have seen in the above example, a differentiation of wages between successful and less successful firms would undermine the highly effective system of skill formation that lies at the heart of Germany's export-oriented production model. What then buffers economic downturns if neither wage flexibility, labor shedding nor macroeconomic policies of the central government do? Again I claim that it is the welfare state that fulfilled this function in German postwar capitalism.

The welfare state offers to labor and capital the opportunity to externalize adjustment costs without endangering the vulnerable German model of coordinated capitalism. It is well known that the Bismarckian welfare state comes closest to what Titmuss has called the industrial achievement / performance model of social policy (Titmuss 1974). The strict adherence to the insurance-principle in this model means that entitlements follow very much the income-distribution generated by the market. This means that the welfare state puts a premium on continual employment, that it benefits workers with relatively high skills and thus high incomes, that it discriminates against part-time work and, as a consequence, also against female labor participation. The lack of a basic pension can add to this: If pension entitlements follow strictly the length and level of previous contributions, workers are unwilling to engage in part-time work and are unwilling to move in and out of work for shorter time periods. These rigidities induced by the welfare state support full-time, life-long employment—the so-called 'standard employment relationship' *(Normalarbeitsverhältnis).*

The main beneficiary of the Continental welfare state has been the male skilled worker in the manufacturing sector (not to mention special occupational groups like civil servants, miners and farmers, for whom often special laws apply): The labor force in Continental welfare states is "comparatively very masculine, and very protected" (Esping-Andersen 1996). Since pensions are status-oriented and supposed to allow for the maintenance of one's living standard during retirement, there is usually no gradual transition from work into retirement. The road out of work is frequently a one-way street, and it does not allow for slow traveling or any detours. Employers thus have no interest in creating part-time jobs to allow for a slower passage into retirement. Correspondingly, unions have no interest in fighting for the creation of part-time employment. This is again supported by specifics of the Continental welfare state's benefit structure. Especially disability pensions offer an early exit from the labor force with generous entitlements. In Germany the legal definition of 'reduced earning capacity'—one of the prominent pathways into retirement—states that workers qualify for a full disability pension should even if they could work for a certain number of hours a day, no 'adequate' part-time job-offer be available to them on the labor market. Another comparatively easy entry into retirement is offered in the German welfare state by "pensions because of long-term unemployment." Older workers, who have reached the age of 60 and have been unemployed for more than 12 months, receive full pension entitlements. Given that older workers can receive unemployment benefits for a maximum of 32 months, firms usually retire older workers at the age of 57 or even before (compensating for the difference between the previous net wage and the unemployment benefit and for any potential difference in pension entitlements due to reduced contributions to the old-age insurance during the time of unemployment).

The clear-cut boundary between work and retirement is one of many reasons why early retirement is so attractive for employers who seek to downsize their workforce without stirring up major unrest within the firm. The many possibilities for an early exit from the workforce have been extensively used in times of economic downturn. Using the old-age insurance as an instrument of industrial adjustment has another rationale. It is an implicit form of introducing more flexibility into the wage structure if wages are inelastic, based on collective bargaining, and follow seniority. At the same time, it can have the beneficial side effect of leading to an improvement of skills within a firm, since firms then can hire young workers who have been trained in the most modern technologies. In fact, the degree to which apprentices are retained by their employers after their training is quite high. German work councils play a crucial role in the management of the process in which older workers are laid off using one of the many paths into early retirement that the German welfare state so generously provides, and in which young trainees are hired in their place.

Under increased competitive pressures, firms in high-wage economies like the German one can only survive if they are able to increase labor productivity. This is most commonly achieved by giving workers high quality vocational training and education, by making labor-saving investments, and/or by laying off less productive or 'too expensive,' mostly elderly, workers. This strategy drives up taxes and payroll social security contributions. The Schumpeterian productivity whip, in turn, puts pressure on wage costs, which provides new ground for reassessing the remaining workforce in terms of its level of productivity, most likely leading to another round of dismissals. It is mainly older workers that are dismissed, but the welfare state offers them a socially accepted and financially generous alternative. This means that social insurance contributions represent a substantial amount as a percentage of labor costs. Because this percentage is so high, it reduces the wage drift and crowds out voluntary fringe benefits. [16] In fact, Germany is one of the few countries that actually experienced a *decrease* in wage dispersion in the 1980s (see Streeck 1997). For example, the number of persons covered by (voluntary) company pensions fell in the 1980s and 1990s. If the statutory schemes crowd out the voluntary ones, this again contributes to the uniformity of wages within and across sectors and thus levels the playing field between large companies and the important SME-sector (cf. Vitols 1996 on the importance of the SME-sector). That wages are by and large independent of either a firm's size of its relative economic success is, in turn, a crucial precondition for the functioning of the German system of vocational training (see above).

Germany is the most open among the large economies of Europe. [17] Nonetheless, the country has been able to cope with unforeseen contingencies like unfavorable changes in the exchange rate or a slump in international demand for German manufacturing goods without referring to the strategies of social corporatism—including tripartite central concertation and macroeconomic demand management—that are so prominent in the smaller open European nations (see Katzenstein 1984, 1985). What can explain this more 'liberal' character of the German political economy, its lesser dependence on state intervention and active economic policy? I maintain that we are once again compelled to refer to the specific incentive—and support-structure provided by the Bismarckian welfare state to explain this feature of German 'latent corporatism'. The high degree of autonomy of the German Bundesbank forestalls the use of certain instruments of macroeconomic adjustment. However, the functional equivalent of strategic depreciations or counter-cyclical spending is provided by the Bismarckian welfare state and its benefit- and regulation-structure that is so remarkably fine-tuned to the demands of German employers and unions. At the same time, a hard currency and the high labor costs exert constant pressure to improve the productivity of German industry. Here again we are confronted with an example of a 'self-enforcing equilibrium' in which the state does not have to figure as an active player. In fact, this equilibrium would be rather undermined by state activism since the 'credibility of signals' and thus the stability of expectations of the economic actors would be negatively affected (see Hall 1994). However, a characterization of this equilibrium as 'liberal' is highly questionable if one takes into account that the corporatist German welfare state is an indispensable part of the picture.

5. A Misunderstood Compromise

It is not by accident that the central laws, which defined the basic postwar economic framework like the cartel law and the central bank law were enacted at the very same year as the major pension reform of 1957. These laws re-instituted and indeed reinforced the main principles of the Bismarckian welfare state — the parity representation of organized capital and labor in the administration of insurance, the focus of the benefits on the core workforce, and the emphasis on maintaining status distinctions among occupational groups (cf. Hockerts 1980). Similarly, important early decisions that anticipated the character of the postwar equilibrium like the decree on price controls and the currency reform as well as early social legislation like the *Sozialversicherungsanpassungsgesetz* were enacted in 1948/49 before the German parliament assembled for the first time (cf. Giersch/ Paqué / Schmieding 1992; Hockerts 1980). It is thus a very apt characterization of the postwar settlement that it revealed a "bi-polarity" (Nörr 1998: 376) between two fundamental conceptions of an economic constitution *(Wirtschaftsverfassung).* The first went back to Franz Böhm's 1933 seminal contribution to Ordoliberalism, which conceived of the economic order as one imposed and guarded by the state. The second rested on the notion of a *Wirtschaftsverfassung* that served as a contract between the social partners. This latter concept had been set out under the formula of 'economic democracy [Wirtschaftsdemokratie]' developed by famous Weimar social democrats like Sinzheimer or Naphtali.

It is not surprising that the Ordoliberals were among the most vigorous opponents of the reconstruction and reform of the Bismarckian welfare state that took place in the 1950s. For them, such reforms, especially the pension reform of 1957, meant that Germany was again traveling on the road to serfdom and "collectivism" (Röpke 1956) that had ruined the Weimar Republic. In the debate on Adenauer's pension reform Alexander Rüstow now warned that political competition by itself may be responsible for the rise of a 'dictatorship within the confines of democracy' (see above) by claiming that the establishment of the "total welfare state" would lead directly and necessarily to the setting up of a totalitarian regime (Rüstow 1956: **). However, Economic Minister Erhard and his academic combatants Böhm, Rüstow, Röpke, and others lost the battle against Adenauer's pension reform altogether This was due not solely, but indeed in part to the poverty of their own alternative concept which mainly hold that a flourishing economy is all that is needed as a social policy in a modern market economy. When their hope in a "de-proletarization through the diffusion of property" (Röpke 1962:113) did not materialize, and instead a significant rise in income inequality and increasing poverty among the elderly occurred as soon as economic growth accelerated, the Ordoliberals were left without a convincing concept (cf. Abelshauser 1997; Hentschel 1996: 259-271; Hockerts 1980). [18]

The proponents of a social market economy, who attacked the reconstruction of the German welfare state in the name of liberalism, erred in a double sense. First, they overlooked the importance of the corporatist welfare state for the stability and the smooth working of their beloved 'liberal' economic order. Secondly, they failed to criticize the Bismarckian welfare state on true liberal grounds, since it was not true that the German welfare state opened the way for particular interests to colonize state. But the Bismarckian welfare state did violate core liberal values like the 'equality of real opportunity' and 'civic responsibility'. This violation is reflected in very high levels of involuntary inactivity, that is mass unemployment (nearly 11 %) and overall low employment (especially low female labor force participation), in widespread poverty among young families and single parents, and consequentially, in very low birth rates, in the exploitation of the young by the elderly, and, finally, in the general and systematic misuse of the welfare state by organized capital and labor (a 'corporatist corruption' of the welfare state). However, since the German welfare state is so closely entangled with the economic order, prospects for a major reform that would render social programs more transparent, just, equal, efficient, less exclusionary, and targeted at truly destitute persons are dim, despite the change in government that Germany has recently experienced.

In the near future, we thus can safely expect that the 'economic capacities' of the liberal economic order will remain to be valued higher than liberal 'political rights' in the German welfare state, even though the German production model is less and less able to produce the surplus needed for the maintenance of the 'old postwar equilibrium'.

References:

Abelshauser, Werner, 1982: Ansätze "korporativer Marktwirtschaft" in der Korea-Krise der frühen Fünfziger Jahre. In: Vierteljahreshefte für Zeitgeschichte 30, 715–756.

Abelshauser, Werner, 1984: The First Post-Liberal Nation: Stages in the Development of Modern Corporatism in Germany. In: European History Quarterly 14, 285–318.

Abelshauser, Werner, 1991: Die ordnungspolitische Epochenbedeutung der Weltwirtschaftskrise in Deutschland: Em Beitrag zur Entstehungsgeschichte der Sozialen Marktwirtschaft. In: Dietmar Petzina

(Hrg.), Ordnungspolitische Weichenstellungen nach dem Zweiten Weltkrieg. Berlin: Duncker & Humblot, 11–29. (Schriften des Vereins für Socialpolitik N.F. Band 203).

Abelshauser, Werner, 1995: Erhard oder Bismarck? Die Richtungsentscheidung der deutschen Sozialpolitik am Beispiel der Reform der Sozialversicherung in den Fünfziger Jahren. In: Geschichte und Gesellschaft 22, 376-392. In French: Erhard ou Bismarck? L'Orientation de Ia Politique Sociale Allemande &agrace; la Lumière de la Réforme de l'Assurance Sociale des Années 1950. In: Revue Francaise de Science Politique 45, 610-631.

Bähr, Johannes, 1989: Staatliche Schlichtung in der Weimarer Republik. Tarifpolitik, Korporatismus und industrieller Konflikt zwischen Inflation und Deflation 1919-1932. Berlin: Colloquium.

Broyer, Sylvian, 1996: The Social Market Economy: Birth of an Economic Style. Discussion Paper FS I 96-318, Wissenschaftszentrum für Sozialforschung Berlin.

Crouch, Colin, 1986: Sharing Public Space: States and Organized Interest in Western Europe. In: John A. Hall (Ed.), States in History. Oxford: Basil Blackwell, 177-210.

Dahrendorf, RaIf, 1965: Gesellschaft und Demokratie in Deutschland. München: Piper.

Eichengreen, Barry, 1996: Globalizing Capital. A History of the International Monetary System. Princeton, N.J.: Princeton University Press.

Esping-Andersen, Gösta, 1996: Welfare States without Work: the Impasse of Labour Shedding and Familialism in Continental European Social Policy, in Welfare States in Transition. National Adaptations in Global Economies, London: Sage.

Eucken, Walter, 1932: Staatliche Strukturwandlungen und die Krisis des Kapitalismus. In: Weltwirtschaftliches Archiv 36, 297-321.

European Commission, 1998: Social Protection in Europe 1997. Luxembourg: Office for Official Publications of the European Communities.

Feldman, Gerald D., 1993: The Great Disorder. Politics, Economics, and Society in the German Inflation, 1914-1924. New York/Oxford: Oxford University Press.

Flanagan, R.J., D.W. Soskice and L. Ulman (1983), Unionism, Economic Stabilization, and Incomes Policies. Washington: The Brookings Institute.

Geyer, Martin H., 1991: Soziale Rechte im Sozialstaat: Wiederaufbau, Krise und konservative Stabilisierung der deutschen Rentenversicherung 1924–1937. In: Klaus Tenfelde (Hrsg.), Arbeiter im 20. Jahrhundert. Stuttgart: Klett-Cotta, 406–434.

Giersch, Herbert/ Karl-Heinz Paqué/ Holger Schmieding, 1992: The Fading Miracle. Four Decades of Market Economy in Germany. Cambridge: Cambridge University Press.

Hall, Peter A., 1994: Central Bank Independence and Coordinated Wage Bargaining: Their Interaction in Germany and Europe. In: German Politics and Society 31,1–23.

Haselbach, Dieter, 1991: Autoritärer Liberalismus und Soziale Marktwirtschaft. Gesellschaft und Politik im Ordoliberalismus. Baden-Baden: Nomos.

Heller, Hermann, 1933: Autoritärer Liberalismus. In: Die Neue Rundschau, 44 H. 1, 289–298. Here cited from the reprint in Herman Heller, 1992: Gesammelte Schriften. Zweiter Band: Recht, Staat, Macht. Tubingen: Mohr, 643–653.

Hentschel, Volker, 1996: Ludwig Erhard. Em Politikerleben. München: Olzog.

Hockerts, Hans Günter, 1980: Sozialpolitische Entscheidungen im Nachkriegsdeutschland. Stuttgart: Klett-Cotta.

Hockerts, Hans Günter (Ed.) 1998: Drei Wege deutscher Sozialstaatlichkeit.

Sonderhefte der Vierteljahreshefte für Zeitgeschichte. München: Oldenbourg.

Holmes, Stephen, 1996: The Anatomy of Antiliberalism. Harvard University Press: Cambridge, Mass.

Katzenstein, Peter J., 1984: Corporatism and Change. Ithaca NY: Cornell UP. Katzenstein, Peter J., 1985: Small States in World Markets. Ithaca NY: Cornell UP.

Katzenstein, Peter J., 1987: Policy and Politics in West Germany: the Growth of a Semi-sovereign State. Philadelphia: Temple University Press.

Krohn, Claus-Dieter, 1981: Wirtschaftstheorien als politische Interessen. Die akademische Nationalokonomie in Deutschland 1918-1933. Frankfurt a. M.: Campus.

Lange-von-Kulessa, Jürgen/ Andreas Renner, 1998: Die Soziale Marktwirtschaft Alfred Müller-Armacks und der Ordoliberalismus der Freiburger Schule—Zur Unvereinbarkeit zweier Staatsauffassungen. In: Ordo—Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft. Stuttgart: Lucius & Lucius, 79–104.

Lehmbruch, Gerhard, 1976/1998: Parteienwettbewerb im Bundesstaat. Regelsysteme und Spannungslagen im Institutionengefuge der Bundesrepublik Deutschland. Opladen: Westdeutscher Verlag.

Lehmbruch, Gerhard, 1992: The Institutional Framework of German Regulation. In: Kenneth Dyson (Ed.), The Politics of German Regulation. Aldershot: Dartmouth, 29–52.

Lehmbruch, Gerhard, 1996: From State of Authority to Network State: The German State in Developmental Perspective. In: Michio Muramatsu/ Frieder Naschold (Eds.), 1997, State and Administration in Japan and Germany. A Comparative Perspective on Continuity and Change. Berlin/ New York: de Guyter, 39–62.

Lepsius, M. Rainer, 1966 [1993]: Parteiensystem und Sozialstruktur. Zum Problem der Demokratisierung der deutschen Gesellschaft. In: Werner Abel u.a. (Hrsg.), Wirtschaft, Geschichte, Wirtschaftsgeschichte. FS für F. Lüttge, Stuttgart, 1966. Here cited from M. Rainer Lepsius, 1993: Demokratie in Deutschland. Göttingen: Vandenhoeck & Ruprecht (Kritische Studien zur Geschichtswissenschaft 100), 25–50.

Luebbert, Gregory L., 1991: Liberalism, Fascism or Social Democracy. Social Classes and the Political Origins of Regimes in Interwar Europe. New York: Oxford University Press.

Maier, Charles 5.1987: In Search of Stability. Explorations in historical Political Economy. Cambridge: Cambridge University Press.

Manow, Philip, 1997: Social Insurance and the German Political Economy. MPIfG Discussion Paper 2/97. Max-Planck Institute for the Study of Societies, Cologne.

Maus, lngeborg, 1976: Bürgerliche Rechtstheorie und Faschismus. Zur sozialen Funktion und aktuellen Wirkung der Theorie Carl Schmitts. München: Wilhelm Fink.

Maus, lngeborg, 1986: Gesellschaftliche und rechtliche Aspekte der 'Konservativen Revolution'. In: lngeborg Maus, Rechtstheorie und politische Theorie im Industriekapitalismus. München: Wilhem Fink, 141–171.

Müller-Armack, Alfred, 1932: Entwicklungsgesetze des Kapitalismus. Ökonomische, geschichtstheoretische und soziologische Studien zur modernen Wirtschaftsverfassung. Berlin.

Müller-Armack, Alfred, 1933: Staatsidee und Wirtschaftsordnung im neuen Reich. Berlin: Junker und Dünnhaupt.

Nipperdey, Thomas, 1993: Deutsche Geschichte 1866-1918, Bd. II: Machtstaat vor der Demokratie. München: Beck.

Nörr, Knut W., 1993: An der Wiege deutscher Identitat nach 1945: Franz Böhm zwischen Ordo und Liberalismus. (Schriftenreihe der Juristischen Gesellschaft zu Berlin, Heft 129). Berlin: de Gruyter.

Nörr, Knut W., 1994: Die Leiden des Privatrechts. Kartelle in Deutschland von der

Holzstoffkartellentscheidung bis zum Gesetz gegen Wettbewerbsbeschränkungen. Tübingen: Mohr.

Nörr, Knut W., 1998: Im Wechselbad der Interpretationen: Der Begriff der Wirtschaftsverfassung im ersten Jahrzwölft der Bonner Republik. In: Karl Acham/ Knut W. Nörr/ Bertram Schefold (Eds.), Erkenntnisgewinne, Erkenntnisverluste. Kontinuitäten und Diskontinuitäten in den Wirtschafts-, Rechts- und Sozialwissenschaften zwischen den 2Oer und 50er Jahren. Stuttgart: Franz Steiner, 356–379.

OECD (1994) Collective Bargaining: Levels and Coverage. In: Employment Outlook. Paris: OECD, 167–194.

Paqué, Karl Heinz, 1998: Zur Zumutbarkeit von Arbeitsplatzen: Bestandsaufnahme und Reformvorschlag. In: Eckhard Knappe/ Norbert Berthold (Eds.), Ökonomische Theorie der Sozialpolitik. Heidelberg: Physica, 71–89.

Röpke, Wilhelm, 1956: Probleme der kollektiven Altersvorsorge. In: Frankfürter Allgemeine, 25. Februar 1956.

Röpke, Wilhelm, 1962 [1932]: Epochenwende? In: Wilhelm Röpke, Wirrnis und Wahrheit. Ausgewählte Aufsätze. Stuttgart: E. Rentsch, 105–124.

Röpke, Wilhelm, 1962 [1958]: Vom Wesen des Wohlfahrtsstaates. In: Wilhelm Röpke, Wirrnis und Wahrheit. Ausgewählte Aufsätze. Stuttgart: E. Rentsch, 294–303.

Rüstow, Alexander, 1932: Interessenpolitik oder Staatspolitik? In: Der Deutsche

Volkswirt 6, 169 ff. Here cited from the reprint in Wolfram Engels/ Hartmut Froels

(Eds.), 1986, Querschnitte. Düsseldorf: Gesellschaft für Wirtschaftspublizistik, 66–71.

Rüstow, Alexander, 1956: Das Problem der Rentenreform. Vortrag Aktionsgemeinschaft Soziale Marktwirtschaft. Ludwigshafen.

Rüstow, Alexander, 1959 [1929]: Diktatur innerhalb der Grenzen der Demokratie. In: Vierteljahreshefte für Zeitgeschichte 7, 85–111.

Sally, Razeen, 1996: Ordoliberalism and the Social Market: Classical Political Economy from Germany. In: New Political Economy 1, 233–257.

Schmitt, Carl, 1931 [1988J; Die Wendung zum totalen Staat. In: Ders., Positionen und Begriffe im Kampf mit Weimar—Genf—Versailles, 1923-1939, Berlin: Duncker & Humblot, 146–157.

Schmitt, Carl, 1932. Gesunde Wirtschaft im starken Staat. In: Mitteilungen des Vereins zur Wahrung der gemeinsamen wirtschaftlichen Interessen in Rheinland und

Westfalen (Langnamverein), H. 21/1932,13–32.

Schönwitz, Dietrich/ Horts F. Wünsche, 1989: Was ist 'sozial' an der Sozialen Marktwirtschaft? In: Wolfram Fischer (Ed.), Währungsreform und Soziale Marktwirtshcaft. Erfahrungen und Perspektiven nach 40 Jahren. (Schriften des Vereins für Socialpolitik, NF Bd. 190). Berlin: Duncker & Humblot, 181&$150;195.

Schotte, Walther, 1932: Der neue Staat. Berlin: Neufeld & Henius.

Shonfield, Andrew, 1965: Modern Capitalism. The Changing Balance of Public and Private Power. London: Oxford University Press.

Soskice, David, Bob Hancké, Gunnar Trumbull, Anne Wren (1998), Wage Bargaining, Labour Markets and Macroeconomic Performance in Germany and the Netherlands, in L. Delson and E. de Jong (Eds.), The German and Dutch Economies. Who follows whom? Berlin: Physica, 39–51.

Steinmetz, George, 1993: Regulating the Social. The Welfare State and Local Politics in Imperial Germany. Princeton, NJ: Princeton University Press.

Stolleis, Michael, 1979: Die Sozialversicherung Bismarcks. Politisch-institutionelle Bedingungen ihrer Entstehung. In: Hans F. Zacher (Hrg.), Bedingungen für die Entstehung und Entwicklung von Sozialversicherung. Berlin: Dunckr & Humblot, 387–420.

Streeck, Wolfgang, 1994: Pay-Restraint without Incomes Policy: Institutionalized Monetarism and Industrial Unionism in Germany. In: Robert Boyer/ Ronald Dore (Eds.), The Return of Incomes Policy? London: Frances Pinter, 118–140.

Streeck, Wolfgang, 1997: German Capitalism—Does it exist? Can it survive? In: Crouch, Colin/ Wolfgang Streeck (Eds.), Modern Capitalisms. London: Sage.

Thelen, Kathleen, 1989: Union of Parts. Ithaca: Cornell University Press.

Vitols, Sigurt, 1996: German Industrial Policy: An Overview. WZB Discussion Paper FS I 96-321. Social Science Research Center Berlin.

Vorländer, Hans, 1997: The liberal Tradition in Germany. In: James Meadowcroft (Ed.), The liberal Tradition revisited. Cheltenham.

Willgerodt, Hans, 1998: Die Liberalen und ihr Staat—Gesellschaftspolitik zwischen Laissez-faire und Diktatur. In: Ordo—Jahrbuch für die Ordnung von Wirtschaft und Gesellschaft. Stuttgart: Lucius & Lucius, 43&3150;78.

Winkler, Heinrich August, 19902: Der Weg in die Katastrophe. Arbeiter und Arbeiterbewegung in der Weimrarer Republik 1930 bis 1933. Bonn: Dietz.

Endnotes

***:** This paper was presented at the workshop, "Liberalism and Change: Political Rights and Economic Capacities in Germany and the United States," January 22-23, 1999, Berkeley, Cahfornia. The workshop was funded and sponsored by the Program for the Study of Germ any and Europe at the Minda de Gunzburg Center for European Studies at Harvard Universitv and organized under the auspices of the Center for German and European Studies at the Universitv of California, Berkeley Valuable comments by Gerhard Lehmbruch, Jim Mosher, Nicholas Ziegler and by the participants of the Berkeley workshop are gratefully acknowledged. I also would like to thank Donna Geyer for language corrections. Back.

Note 1: The integration of the free funds into the new health insurance of 1883 happened against Bismarck's explicit will. It was due to the obstinacy of the responsible civil servant in the Reichsamt des Inneren, Theodor Lohmann. Back.

Note 2: Average cabinet durability in the Weimar Republic was slightly below 10 months: interwar Germany experienced 17 cabinets in the 14 years between 1919 and 1933. Back.

Note 3: Abelshauser states that German Ordoliberalism as an economic concept was invented during the economic crisis of 1928/32 (Abelshauser 1991; especially 21 and 22). Back.

Note 4: See two further contributions, Alfred Müller-Armack's book "Entwicklungsgesetze des Kapitalismus" (1932) and Wilhelm Röpke's short paper titled "Epochenwende?" (1932/33; see Haselbach 1991; Ropke 1962) Müller-Armack's diagnosis of the Weimar crisis is very much in agreement with Eucken's and Rüstow's account; see Müller-Armack (1932: 97-127). Back.

Note 5: German liberalism was from the start "feudalized by conservative thinking" (HeIler 1933 [1992]: 650). German liberals did not turn [had not to turn] against the old order, against the aristocracy and its feudal privileges since these had been already 'rationalized' by the absolutist king and his modern bureaucracy. The German bourgeoisie instead joined forces with the conservatives in their struggle against the perils of mass democracy and for the fulfillment of national unification. Back.

Note 6: I cannot discuss here in any great detail the differences between the economic concepts of the TAT-group (including Carl Schmitt's concept) and those of the radical liberals (for a good account, see Maus 1976 and in particular Maus 1986). There *were* indeed important differences. The TAT-group wanted to base the new regime on a mass-movement and was in favor of a much more 'socialist' approach including extensive economic planning. To put it bluntly: While Röpke, Rüstow, and Eucken sympathized more with the *von Papen* government, the young conservative thinkers of the TAT-group supported the *von Schleicher* cabinet But besides these differences, what is important for our context is that both groups supported an authoritarian solution, proposed to separate ‚the state' from democratic influence, and took a decidedly anti-parliamentary position. Back.

Note 7: Rüstow preferred to emigrate after 1933 not because he had been too 'left' or 'liberal,' but because he had criticized the economic program of the National Socialists from a radical conservative position (see Haselbach 1991: 207). Back.

Note 8: Walther Schotte had to go into some length in arguing why the demand for the strict division between state and market was a conservative proposal, not a liberal (Schotte 1932). Back.

Note 9: A vehement defense of Ordoliberalism against this reproach first formulated by Herman Heller and today again presented especially in the work of Haselbach (1991) and others (Krohn 1981, see also Knut Nörr's work on Franz Böhm; Nörr 1993,1994) can be found in Willgerodt (1998). Willgerodt, however, fails to address most of the substantial points of critique and instead polemizes against what he sees as a marxian (i.e. itself totalitarian) critique of liberalism. Back.

Note 10: Franz Böhm, for example, strongly rejected the notion of individual liberty, which he equated with anarchy and ruleless laissez-faire—a common theme in anti-liberal thinking (see Holmes 1996). Böhm was rather agnostic about the political framework in which societal and economic order was to be achieved. Therefore, he explicitly recognized the valuable contribution of totalitarian states to *protect* economic and social order—Böhm formulated this was well after the Third Reich in 1957! Nörr thus states, as I think absolute correctly, that Böhm's notion of liberty and order "had nothing to do with liberalism however conceptualized" (Nörr 1994:149). Böhm's understanding of liberty was not individual, but institutional and therefore very much in the tradition of German conservative social theory: The market and the prize were to discipline an otherwise weak individual. Back.

Note 11: Some members of the Freiburger Kreis were even part of the German resistance against Hitler (see Müller 1988). Back.

Note 12: In connection with the decree of the Federal Office of Labor from 16 March 1982, § 5 para. 1 line 2 *(Zumutbarkeits-Anordnung,* ANBA S. 523). This provision was reformed in 1997. Since 1998 this linkage between collectively set wages and the 'acceptability' criteria of the unemployment insurance does not exist anymore (see Paqué 1998). Back.

Note 13: In 1992, "less than 2 per cent of valid collective agreements in Germany, notably in construction, textiles and clothing, had been declared generally binding. This added only about 3 per cent of employees to collective bargaining coverage" (OECD 1994:175). Back.

Note 14: Union density in Germany is medium (32% [trade-union members in % of wage- and salary-earners] in 1990), the collective bargaining coverage rate however is higher than even the Swedish rate (90% [number of workers covered by collective agreements in % of all wage- and salary-earners] in 1990; the Swedish rate was 83% in 1990). See OECD (1994:173). Back.

Note 15: This point had been convincingly made by Abelshauser (1982) and Shonfield (1965). Back.

Note 16: Social insurance contributions of employers and employees comprised more than 35% of overall labor costs in 1995 (see European Commission 1998: 75). Germany ranks fifth among all EU-countries in this respect, surpassed only by Italy Belgium, the Netherlands and France. Back.

Note 17: Before unification, in 1990: Germany 51% of GDP, France 40%, Italy 36%, UK 44.3% [Japan 19.6; USA 19.9%]. Back.

Note 18: Of course, a full account of the ordoliberal position towards the question of social policy would have to be much more nuanced (see for an overview Schonwitz/ Wunsche 1989). Because Ordoliberalism and the concept of the 'Social Market-Economy' were not well defined, canonical concepts, considerable differences between the different proponents of the ordoliberal school remained. While Eucken assigned to social policy only a very residual role, both Erhard and Müller-Armack saw a more encompassing welfare state (including full employment policies) in principle as compatible with a free market economy as long as no distortion of the price mechanism occurs. However, in Erhard's eyes this was exactly what the pension reform of 1957 did: a distortion of prices through the coupling of pensions to the development of gross wages. Back.