Germany is stuck with a crisis it did not foresee and can no longer control

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Germany is often described as a 'reluctant hegemon' in the sense that it has found itself pushed to the centre of EU affairs by the Eurozone crisis. **Peter Nedergaard** *and* **Holly Snaith** *write that the increasing importance of Germany in the EU has resulted in a particular brand of German 'ordoliberal' thinking becoming institutionalised at the European level. They argue that this has had some unintended consequences for Germany, which now finds itself trapped in the centre of a crisis that it can no longer control.*

Few could look at the contemporary shape of the Eurozone and argue that there have not been some fairly major unintended consequences. Indeed, one would rather hope that is the case, because the reverse would imply that policymakers intended to create the conditions for the chaos that has resulted.

In a recent study, we explore how the current or historic state of integration fits with actors' preferences, and how the integration of those preferences may ultimately produce perverse outcomes. Ultimately, our primary concern is Germany: Germany has of course been a key player in designing and maintaining, not always successfully, the rules-based framework of the Eurozone and its predecessors. Our analysis is based in part on a series of interviews obtained with senior civil servants within the German finance and foreign ministries (the Bundesministerium der Finanzen and Auswärtiges Amt). And we ultimately conclude that, like the travellers in Rimbaud's famous poem 'The Drunken Boat', Germany is increasingly akin to the protagonist who laments their experience, 'As I drifted on a river I could not control, No longer guided by the bargemen's ropes…'

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We use a perspective based on Robert Merton's classic, and elegantly simple, analysis of unintended consequences in order to frame Germany's engagement with the Eurozone. Merton's ultimate insight is that when actors engage in 'purposive social action' to effect a certain end, these actions often do not produce the effects desired by the original actor, for four reasons. The most obvious hindrance is provided by the existing state of knowledge (or lack of knowledge), as the information on which we base our action is inevitably incomplete.

Other fields from which unintended consequences can arise include error (a failure to recognise that procedures that have been successful in certain contexts need not to be so under all circumstances); the 'imperious immediacy of interest' (an overriding concern with anticipated positive consequences that stifles other possible consequences: in other words, wilful ignorance); and the influence of 'basic values' (where actors are so wedded to the necessity of 'certain actions conjoined by certain fundamental values' that they cannot conceive of alternatives). Using Merton's framework, we would argue that whilst all of these facets can be seen in the case of the Eurozone, many of the pathologies witnessed during the crisis can be attributed to ordoliberalism functioning as a 'basic value' of German policy-makers, which functions to shut out alternatives.

The Freiburg, or 'Ordoliberal' School, originated in a highly influential group of German economists and lawyers operating from 1936 onwards, with Walter Eucken (1891-1950) and Franz Böhm (1895-1977) as the key scholars. Under an ordoliberal conception, the basis of a successful economic policy is the establishment of a strong legal and institutional framework, which Eucken termed '*Ordnungspolitik*' – literally, ordered politics. The distinctiveness of ordoliberalism comes into sharp relief when it is compared to Keynesianism and neoliberalism. Ordoliberal philosophy does not, for example, authorise unlimited intervention in the market. Instead it advocates a specific *type* of state intervention (namely, that it should provide the circumstances that best facilitate a competition oriented market), which differentiates it strongly from Keynesianism.

Ordoliberalism is nonetheless more committed to state activity than laissez-faire liberalism (often equated in a contemporary context to neoliberalism) in particular to prevent the emergence of cartels. Five principles of ordoliberalism can be delineated (injunctions to avoid limits on liability, and effect price stability, constitutional predictability in economic policy, and restraints on economic steering). As our interviews found, self-proclaimed ordoliberals are rife within the German Ministry of Finance and Ministry of Foreign Affairs, with responses stating, for instance, that 'there is a very strong ordoliberal tradition within the administration, which is irrespective of left-right patterns', and that there is 'a deep ingrained preference for a kind of German ordoliberal crisis management'.

It was not until the Eurozone crisis that ordoliberalism really gained recognition as a model of state organisation beyond Germany's borders. The obvious cause of this resurgence was the spread of austerity across Europe accompanied by the widespread perception that this was the result of a set of distinctively Germanic economic norms. We have traced the presence of ordoliberal political involvement in the history of European monetary integration, through the Werner plan and 'snake in the tunnel' of 1971-1973, the European Monetary System, and the negotiations over Maastricht (in particular, the Stability and Growth Pact).

The incipient ordoliberalism emerging within European monetary integration has proven a motor for further action. As German economic strength was traded for a greater reliance on binding EU rules, this has over time resulted in pressure for further integration, and not necessarily in a direction that Germany might ultimately have wished for. Our analysis demonstrates how the four sources of error have impacted German policy-making, and not necessarily for the better.

First, *ignorance* lay mostly in Germany's lack of comprehension during the pre-crisis phase of the conditions in other member states, believing rather insouciantly that the existing treaty framework (and the Stability and Growth Pact) would take care of matters. As a result, German actors awoke only rather belatedly to the urgency of the crisis, initially extrapolating too far from their own (relatively benign) domestic circumstances to conclude that this was a crunch about which they could afford to be relaxed.

Second, there was an *error,* illustrated in Chancellor Merkel's fairly blunt remarks in August 2014 pointing to the 'construction flaws' of EMU. The roots of this view date back to 1998 when the initial decision was taken on which member states would join, when pervasive economic underperformance meant that only Luxembourg met the criteria in full. Given the relaxation of the criteria to allow virtually every applicant (save, originally, Greece) to join, Germany's original vision for a smaller, more homogenous EMU never came to fruition.

Third, in terms of the *immediacy of interests*, the overriding stated interest of Germany (and the Eurogroup as a whole) was in saving the euro, while not increasing the moral hazard inherent in the regulatory framework. Fulfilling German interests thus involved antagonising neither their European partners nor the German public, and these twin objectives (wrapped up in broader foreign policy) precluded longer term considerations.

Finally, *basic values* constituted a source of error. There is increasingly a sense in the Ministries that the other EU member states have, at least in principle, accepted the German economic philosophy ('We were feeling very comfortable that our philosophy of stability was adopted by everyone'). Despite Germany's optimism regarding the spread of an ordoliberal way of thinking, however, it still remains an open question whether it will be fully internalised in the longer run among decision-makers in the member states hardest hit by the Eurozone crisis, and arguably it has been an error for German policy makers to assume that it would be.

Germany has, in the eyes of many observers, come out of the Eurozone crisis in a position of particular strength. The configuration of European economic integration – and in particular EMU since the crisis – exhibits evidence of incremental 'ordoliberalisation', which is especially apparent when the possible alternatives are considered. Nonetheless, our interviews did suggest tensions between the competing objectives of German domestic politics, and the country's role in Europe, that seem to stem at least partially from the uploading of ordoliberal ideas to the EU level.

It became clear to us through the interviews that there was a perceived correspondence between economic success at home and the strength, credibility and legitimacy of a country's voice in Europe – thus, translating ordoliberal values to the EU level may be regarded as an end in itself for Germany. However, this has not come without a cost. In adopting the ordoliberal precepts of EMU, periphery countries first benefited from importing German-influenced economic policies, and then suffered when the removal of their monetary and fiscal room for manoeuvre exposed severe structural weaknesses in their economies.

In this vein, many of the interviewees within the German ministries expressed a sense of bathos that although Germany, as both a political actor and a source of institutional norms has effectively 'won'; this has resulted in a large number of consequences that Germany neither foresaw nor wished for.

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Note: For a longer discussion of this topic, see the authors' recent article in the Journal of Common Market Studies. This article gives the views of the authors, and not the position of EUROPP – European Politics and Policy, nor of the London School of Economics.

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