German Interest Groups and the Eurocrisis

Is Austerity hegemonic?

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Abstract

The aim of this thesis is to explore the entrenchment of the German government's austerity-focused position among the main interest groups of the German society. By presenting and explaining the positions and motivations of fractions of German capital and labor in supporting or opposing the austerity-consensus of the Merkel government, it aimed to add an interest-based and societal account to understanding the German position on the management of the Eurocrisis and the reform of EMU, and explore the possibility of a change in this position. The main question is if the neoliberal position represented by the Merkel government is hegemonic within Germany, enjoying the support of a historical bloc consisting of a united business class and at least fractions of labor. It tests the existence of this hegemony, using economic statistics, quantitative data and interviews to analyze the interests and policy preferences of the two most important sectors of the German economy, finance and industry, and of organized labor in connection to the Eurozone crisis.

The main finding of the thesis is the Merkel government's position is hegemonic without serious opposition within Germany. We see a united business position, as both sectors are benefitted from the crisis management and the reform of economic governance pursuiting more market discipline and focus on competitiveness. Although unions present a Keynesian alternative position, they face many constraints in forming this critique into a counter-hegemonic project, experiencing a loss on policy influence in relation to it political partners and both horizontal and vertical divides within the union movement.

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BDA	Bundesvereinigung der Deutschen Arbeitgeberverbände
BDI	Bundesverband Deutschen Industrie
DGB	Deutscher Gewerkschaftsbund
DIHK	Deutscher Industrie- und Handelskammertag
DM	Deutschmark
EMU	European Monetary Union
IG Metall	Industriegewerkschaft Metall
SGP	Stability and Growth Pact
VDA	*Verband der Automobilindustrie*
Ver.di	Vereinte Dienstleistungsgewerkschaft

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Introduction

Since the debt problems of Greece and later other EMU countries became salient in 2009, the EU and the Eurozone struggles with the biggest crisis in its history. This crisis has many interconnected dimensions: It is an economic crisis, a problem of unsustainable public debt in the member states and of macroeconomic imbalances among them. The threat of insolvency of Greece, Ireland, Spain, Italy and Portugal triggered EMU wide crisis management process, which itself led to political crises in the member states and a crisis of confidence in the European integration.

The main line of crisis management conducted by EU institutions and members states focuses on providing financial support for countries which are unable to finance themselves from the capital markets, but condition this support on strict and immediate fiscal consolidation and structural reforms to regain the confidence of the financial markets. This has resulted in a series of austerity programs in the southern and western peripheries of the EMU in the last 3 years, with constantly growing unemployment, falling real wages, cuts in public spending and privatization of social services (Busch et.al 2013).

Meanwhile leaders of Eurozone countries and of EU institutions are contemplating the deepening and reforming of integration to avoid similar crises in the future. The solution to the problems proposed and agreed on by the leaders of European countries and institutions is the increasing of the EU level coordination of fiscal policies of the member states, strengthening ‘economic governance’ and leading the way of an economic, not only monetary union. The Treaty on Stability, Coordination and Governance in the European Monetary Union – or the ‘Fiscal Compact’, as commonly referred to – which was signed by 25 out of 27 EU member countries on March the 2nd 2012, entered into force on January 1st 2013. In this treaty member states agreed to keep tighter budget discipline through balanced-budget rules, allow the monitoring of their budget plans through the so called European Semester and in case of deviation, submitting themselves to correction by automatic mechanisms (European Council 2013). Other measures have already been taken by EU institutions to monitor and coordinate the fiscal policy of the member states to keep them within the boundaries set up in previous treaties and agreements.

The developments that we can observe in the European economic policy making are arguably strengthening and institutionalizing the philosophy and aims of the Stability and Growth Pact. This means that despite the lessons of the last thirteen years about the imperfections of the institutional architecture of the single currency system, the primary goal of the leaders of Europe is to defend and strengthen the status quo, one characterized by disciplinary neoliberalism, a governance framework aimed at securing market discipline on state and society to achieve credibility of policies in the eyes of market actors (Gill 1998, 5).

One of the most important driving forces of the disciplinary neoliberalism in crisis management and economic governance is the current German government. Germany has always played a very important role in EC/EU development, shaping outcomes in all steps of economic integration from the creation of Single Market through the different attempts of monetary integration to the completion of the EMU (Garret 1992; Sandholtz 1993). Germany always had a great effect on integration either implicitly as the biggest economy and the most important trading partner in the EU, influencing economic interests and political strategies of other countries, or explicitly through its leaders in European political fora. During the current crisis the influence of Germany became even stronger, as it is the biggest contributors to the bailout funds, it's banks being among the biggest creditors in the crisis countries and France, the other major European leading power is troubled weakened by the crisis. The leadership role of Germany, however non-solicited, reluctant and involuntary, is even more explicit in the last couple of years, as its chancellor Angela Merkel and finance minister Wolfgang

Schäuble, along with other prominent German politicians and economists shaped greatly both the pace and the direction of European level action.

The disciplinary neoliberalism of the crisis management is met with violent contention in the southern countries and heavy intellectual criticism from policy-makers and academics. Although until recently the leaders of the most prominent EU states and institutions gave active consent and support to the positions of the German leadership, now more and more of them seems to back out of the austerity consensus, calling for a change in the course from Berlin and Brussels (Financial Times, 2013). Many European politicians, including Manuel Barroso share the view that continuous austerity has reached its social and political limits: it only deepens the recession in the GIIPS countries, unemployment and poverty is reaching new heights, and the voter outrage stemming from austerity helps populist, anti-EU forces gain momentum in many states. Leaving countries without prospects of growth and without a significant reduction of public debt, the austerity strategy seems to be failing.

So far it seems that despite increasing criticism and pressure, the German government keeps sticking to its position, with the seemingly general support of the German society. But how entrenched is the societal support for this austerity-based position and how likely is it to change? Existing academic and journalistic accounts give us ample evidence that dominant elite ideologies and public opinion underpins the Merkel government to keep its disciplinary course. This thesis seeks to add to the literature by focusing on the positions of major economic groups within Germany.

The purpose of this thesis is to explore if the position of the German government enjoys a hegemony among the major forces in German society, organized labor and capital. The answer to the question about the social entrenchment of the German position on EU economic governance has relevance in understanding the political strength and possibilities of different alternative models for solving the Eurozone crisis and reforming the Economic and Monetary Union.

For this research I will employ an interest based analysis, focusing on the relation of social forces in maintaining or questioning the project of neoliberal European governance. To do this I will follow a qualitative research strategy based on the analysis official documents, position papers and press materials, and interviews conducted with representatives of major interest groups on the side of capital and labor.

The major assumption of the thesis is that the position represented by the Merkel government can be considered hegemonic if the different sectoral fractions of capital supports it and it enjoys the active or passive consent of at least part of organized labor. This raises many questions that I aim to answer: Do the major sectors of the German economy, namely finance and industry have common interests about the crisis management? What motivates the position of German unions, and does it align with those of their employer's, or with those of their southern and Irish comrades? Do issues of the EU-level economic governance unite or divide unions? Does an alternative European policy position have any potent representation in Germany?

The thesis is structured as follows: In the first chapter I introduce the problems of the Eurocrisis, the German position on crisis management and the reform of the EMU system and its Keynesian critics in the historical context of the neoliberal European integration. The following chapters review the state of the art literature about the determinants of the German position and the relevant approaches of political economy for answering the questions above and pose hypotheses for analysis. Chapter 3 and 4 present the analysis of the interests and positions of capital and labor.

1. From Eurosclerosis to Eurocrisis: Neoliberal European governance

Although the European economic integration project did not yet see a crisis like the current one, there is surprisingly little change in the reactions to the policy trends dominating the European integration since the 1980s. These reactions emphasize the importance to allow the markets discipline the European governments to become more competitive, which will lead Europe out of the crisis. The aim of the first part of this chapter is to give an overview of the development of the neoliberal governance project of the European Union, which, as argued in this paper, reigns on in the crisis management imposed on the southern EMU member states and Ireland, and in the new pacts for economic governance.

The second part of the chapter introduces these crisis management measures and pacts in more detail, along with a review of literature concerning the development of the crisis. I will also overview the Keynesian critique of the neoliberal crisis management, which argues that fiscal consolidation is only making the European crisis worse, and what the EU needs is not strict rules binding everyone's hands, but a system of European economic government and a program that and acknowledges common liability for debt and growth.

Along the chapter we will pay special attention to the role played by Germany in the European governance project, which will be the central issue in the subsequent part of the thesis.

1.1 European integration and disciplinary neoliberalism

Until the 1980s, The course of European integration fitted well into the global trend of 'embedded liberalism': it encouraged trade liberalization among member countries, but limited by the national democratic political channels (Bohle 2010, 2). With nation states still equipped with the full autonomy of political decisions, there was space for embedding trade liberalization in the macroeconomic management and welfare policies responsive to the national economic and democratic needs. As Katzenstein famously described (1985), some of the member states of the European Communities also developed neocorporatist systems for wage coordination with the cooperation of organized labor and capital, with or without the state as a third party. Thus in an international market economy interest groups and voting citizens had channels of significant influence on economic government at the national level.

After the changes in the economic mainstream following the crisis of Keynesianism in the 1970s however, the character of European integration also took a turn towards neoliberalism and monetarism in steps towards completing the internal market later towards monetary unification. Along with the economy, the integration process also stagnated in the 1970s and, as van Apeldoorn reports (2001, 74) was revitalized by the organization of big business as a social and political force at the European level and the new economic thinking developed to counter Keynesianism.

In the rising neoliberal ideology the elements of national political management of the economy listed above, government intervention, welfare state and trade unions were perceived as 'institutional rigidities' which are the causes of the stagnation of the European economy and integration project alike. From this perspective, a new integration project should focus on eliminating these obstacles to efficient market allocation and focus on negative integration in the creation of a free trade zone in Europe that can benefit from globalization (ibid.). The subsequent project of completing the Internal Market was the first of the political project towards a neoliberal European governance.

At the heart of this governance mode lays the separation of the political and the economic, the delegation of economic policy decision-making away from democratically accountable bodies to depoliticized, technocratic institutions with binding mandates, such as independent central banks, or limit democratic discretion with strict rules, such as a debt brake. This sheltering of economic governance from democratic politics is what Stephen Gill calls the new constitutionalism of neoliberal governance (Gill 1998, 9). In this system monetary policy takes the leading role of economic policy through the maintenance of price stability and money supply, best achieved if sheltered from politics, while fiscal policy was to keep a balanced budget. This de-embedding of the market forces through institutions discipline policy-makers and governments to behave 'responsibly', avoid the temptation of inflationary intervention and allow markets to allocate resources efficiently, raising everyone's welfare on the long run.

This temptation was argued to be even more limited if they "tie their hands" by coordinating monetary policy through a European Monetary System, which would make policy-makers and central bankers more credible in playing by the rules (Giavazzi and Pagano 1988). Germany was a leader in this rule-based disciplinary governance after the monetarist turn of the highly independent and inflation-averse *Bundesbank* in 1974, which served as a model for other countries and was the epicenter of the EMS system in the 1980s (Scharpf 2011, 8).

The EMS system could however not establish a disciplinary governance system encompassing the whole European community, since members who couldn't keep the *Bundesbank*'s inflation target still had an option to devaluate currency. Due to it clear German dominance, this system of monetary coordination was also contested by many participants (Sandholtz 1993, 27). But, as one of the main advocates of European monetary integration, Tommaso Padoa-Schioppa argued, the single market cannot work if the currencies of the members can fluctuate, as the difference in exchange rates constitutes a significant trade barrier (1994, 56-57). According to Padoa-Schioppa, a closer monetary integration is a natural continuation of completing the internal market. A simple fixed exchange rate system is not sufficient for eliminating this barrier since it does not establish who is to decide the policy stance for the whole monetary system (ibid. 58). Also, the argument goes, fiscal rules are desirable to complete monetary union, which enhance market discipline on governments and setting limits on deficit, imposing institutional discipline if the market was not sufficient (ibid. 61). The ideas of prominent neoliberal economists translated into actual and binding policy with the Maastricht Treaty and especially its strict macroeconomic criteria for entering the Economic and Monetary Union. Germany had a prominent role in the design and introduction of the Maastricht regime, since it would only agree to giving up the DM if the new European currency regime the *Bundesbank*, which needed strict rules and high level of independence for the European Central Bank (Heipertz and Verdun 2010, 46). This way the Maastricht Treaty continued to move the economic policy and institutions of other member states towards a 'German model' (Gill 1998, 10-11).

European states experienced the first waves of austerity and wage restraint with the different attempts of monetary integration, which was a natural and desired consequences of disciplinary neoliberalism. Hancké and Rhodes (2005) show that to adjust their inflation targets those of the Bundesbank's, those countries tying their currency to the DM in the EMS had to shadow the German wage settlements, which meant wage restraint for most countries. Then to meet the debt and deficit criteria of Maastricht, all European countries experienced periods of wage restraint in the 1980s, which worked as an internal devaluation, substituting the lost option managing exchange rates (ibid.). Those who did not adjust to German macroeconomic criteria during the EMS, had to consolidate their budgets and restraint wages in the 1990s in the run-up to EMU.

Fiscal policy was further bound by rules planned to discipline government spending after Eurozone entry in the form of the Stability and Growth Pact, initiated by Germany in 1995 and adopted in 1997. SGP set fiscal rules, defined punitive measures and procedures to enact the rules within the European system of decision making. The pact was also completed with a no-bailout clause, ruling out common liability and debt management and further strengthening market discipline. Thus by the late 1990s the EU level institutional framework of disciplinary neoliberal governance was complete.

In practice the SGP turned out to be a 'paper tiger', did not prove to be such a hard constraint on excessive deficits as planned, as countries like France and Germany could run deficits above the criteria without getting punished (Hancké and Rhodes 2005, 216). The SGP was even eased and reformed in 2005 – also initiated by Germany – however the Monetary Union was deemed a successful project of integration which boosted trade and investment and brought growth to Europe.

1.2 Debating crisis management and EMU reform: Austerity consensus and its critics

Despite the seeming hegemony of neoliberal thinking, the first reactions to the financial crisis following the crash of Lehman Brothers in many countries were dominated by a Keynesian policy logic. Besides huge bailout programs for banks and some leading industrial firms, the first instance of crisis management at the national level contained government financed investment programs and special incentives for companies, workers and consumers in order to boost demand and avoid mass unemployment. Germany for instance managed its own crisis through stimulus packages, a government subsidized reduced working-hour system to save jobs and a car scrapping scheme to boost demand (Schirm 2011, 56). With these measures Germany could very quickly stabilize its economy and get back to a growth path, though with growing public spending and rising unit labor costs.

For a while after the crisis and during the Keynesian crisis management measures it seemed to most observers that neoliberalism was proven wrong and something else will come to take its place. However when the leaders of the EU member states, the European Commission and the European Central Bank turned their attention to the crises in Greece, Ireland, Spain, Portugal and later Italy, disciplinary neoliberal governance came back with full force. As the threat of a government bankruptcy in the southern countries and Ireland would have probably caused the breakdown of the whole EMU, member states and the bodies of the EU were determined to rescue the most troubled countries, with the help of the IMF. The help would not come for free, however. The conditions tied to the rescue program were fiscal retrenchments to reduce the short-term need of credit and structural reforms of welfare systems and the labor market to increase market confidence, as listed by Scharpf (2011, 24).

The debt crisis of these countries was partially caused by the necessary reactions to the global financial crisis (such as bailing out domestic banks), most evident in the cases of Ireland and Spain (Jones 2011, 349), and the imbalances that resulted from the flaws of the EMU system (as discussed later). However, the crisis is framed as consequences of irresponsible governments and their citizens living beyond their means instead of becoming more competitive (ibid., 337), which justified the harsh neoliberal programs. As discussed by Schaprf (2011, 25) the conditions were set in the "Memorandums of understanding" between the so called Troika – the European Commission, the European Central Bank and the International Monetary Fund – and concentrated on tax increases, cutting and/or freezing of public sector wages, cuts in pensions, social spending and public investment and privatization, along with 'ambitious' reforms in the labor market, welfare and pension systems, public administration and tax system. The policy recommendations also highlighted the importance of reforming "outdated structures" and "institutional rigidities" in the labor system, mainly the centralized collective wage bargaining systems, which were greatly deregulated (Busch et al. 2013, 10). The result of these "rescue-cum-retrenchment programs" (Scharpf 2011, 24) is rapidly rising unemployment and economic recession.

The reforms undertaken in the EMU system of economic governance are also a clear reinforcement of the disciplinary neoliberalism of the Maastricht regime. To avoid similar crises in the future, the reforms aim partially at recharging the SGP system with stricter deficit and debt limits and strengthening the preventive supervision of budgeting processes and compliance with the rules. This was regulated in the so called “Fiscal Compact”. Other parts of the reforms bring novelty to the economic governance with their focus on monitoring and correcting macroeconomic imbalances, especially with the Euro Plus Pact, an initiative of Angela Merkel and Nicolas Sarkozy (Busch et al. 213, 8). This pact of the EMU member countries plus six member states outside of the Eurozone is a commitment to boost employment through labor market reforms, take reforms to enhance the fiscal sustainability of the welfare state and to foster competitiveness and avoid macroeconomic imbalances (European Council 2011).

Part of the last commitment is introduction of the new Excessive Imbalance Procedure, through which the Commission can monitor current account balances, unit labor costs and other indicators of the macroeconomic situation and give recommendations how to manage them in a desirable way, with the option of sanctioning governments who do not comply (Scharpf 2011, 29). This stream of economic governance thus moves away from the rules-based policy making towards a regime with more discretion on the side of the EC (ibid.). The Euro Plus Pact is opening the way to a new European interventionism where the Commission and the Council will be able to intervene in the areas of wage setting (Busch et al. 2013, 12), something that was unthinkable in the previous economic governance systems. However this stream is just as neoliberal in its focus on competitiveness and labor market flexibility and its recommendations aim at a more market driven and enterprise level wage negotiation structure, de-embedding wage setting from the central or sectoral collective bargaining systems.

The economic governance system in the making thus reinforces the previous European governance system in restore capitalist power against popular and labor influence and depoliticized policy making and institutionalized permanent austerity (Bohle 2011, 91).

While the executives of the crisis management programs and the future economic governance mechanisms are technocratic institutions and, as mentioned, these institutions have reasonable discretion in evaluation and policy recommendations, the underlying crisis interpretation and policy aims of the programs had wide support among European leaders. This is demonstrated best by the fact that only two out of the 27 member states voted no for the fiscal compact. The German government led by Merkel was especially influential in shaping the crisis management and EMU reform.

At the beginning of the European crisis the Merkel government was responsible for preventing and delaying a joint European response for the Greek crisis, emphasizing national responsibility based on the no-bailout clause of the SGP. The Merkel government was also important in pushing for the strict conditionality for financial support and in calling for a far-reaching reform of the SGP to avoid future crises (Musserl 2010, 43).

The mainstream of disciplinary neoliberalism represented best by the German government is not uncontested, however. Academic economists, policy makers and economic commentators, mostly from the (new) Keynesian economic tradition dismiss the austerity based crisis management as only deepening the recession in Europe, criticize the priorities and outcomes of European crisis management and the German leadership in particular. As mentioned before, critical voices are also gaining momentum in Europe as more and more leaders argue against the austerity position, and as the some of the underlying wisdoms of the neoliberal position – such as the study by Reinhardt and Rogoff about the relationship between public debt and GDP growth – are questioned (Financial Times 2013).

Keynesian economists have criticized the economic policy mix of the EMU for the fact that it leaves fiscal policy to be a national issue while restricting it with deficit rules and not compensating for this loss of ability to stimulate the economy in case of shocks by EU level fiscal government and resources. With all other means taken away from nation-states and not substituted at EU level, it falls on labor markets to respond to shocks through more flexibility, which, according to the Keynesian critics is not the right instrument for this purpose (Stockhammer 2011, 85-86). Most Keynesian critics also agree that the cause of the Eurozone crisis was not fiscal irresponsibility, which the dominant German proposal aims to cure, but macroeconomic divergence, shift in competitiveness and financial irresponsibility (Wolf 2010 ; Stiglitz 2011).

As highlighted by the critics of the neoliberal position, the crisis in the GIIPS countries developed as the effect of the imbalances within the EMU system. As discussed by Scharpf (2011, 12) for the southern countries, which had above average inflation before EMU entry, the one-size-fits-all interest rates of the ECB meant relatively lower real interest rates, encouraging a credit-led growth in these countries (Scharpf 2011, 16). The same ECB interest rates were too high for countries which had very low interest rates before entry, such as Germany, which depressed domestic economic activity. Excess money from countries with a trade surplus could be invested in countries with rapid growth, but without the exchange rate risk. On the other hand peripheral countries like Greece needed investment and capital inflow, from which they could buy goods from abroad, for instance from Germany (Jones 2011, 331-332). The result of this process, not just in Germany and Greece but in the whole of the Eurozone was that two distinct groups developed: that of deficit (Ireland, Greece, Spain, Cyprus, and Portugal) and surplus countries (Germany, Luxembourg, the Netherlands, Austria and Finland) with their surpluses and deficits mirroring each other (Young and Semmler 2011, 3). The result of the process was however that the deficit economies experiences asset bubbles and high vulnerability to market fluctuations and capital flights, leading to their financial and later fiscal crisis after the crash of the global financial market. Hence the mainstream argument underlying most policy- and public discourse about the crisis caused by lack of fiscal discipline and bad working morals is mostly wrong.

far from curing the crisis, austerity policies are argued to make thing worse. As Krugman emphasizes, the resulting crisis in itself causes high unemployment and economic recession in the crisis countries, austerity policies imposed on these states only magnify the pain without curing the real problem (Krugman 2012). Instead leaders of Europe should work on solutions that focus on growth, emphasize shared responsibility and re-embed economic policy in a political union.

According to George Soros, also a critic of the crisis management, Germany is currently doing the minimum to hold the Eurozone together, which will work for an indefinite time, but not forever (Soros 2012). The solution is not making everybody German, meaning gaining competitiveness through wage restraint and concentrate on boosting global exports, but by making Germany less so. Germany, as an economic and political central power of Europe should be a leader of curing the disorder, but for that German leaders should get a correct reading of the problems (Wolf 2010). Other economists also criticized German policymakers of fetishizing exports, while IMF chief executive Christine Lagarde has questioned the sustainability of the German export-dependent model and urged northern countries, including Germany to boost domestic demand through higher inflation, thus also helping other troubled European economies (Economist 2012). This would lead to a currency union where debtors and creditors share responsibility for stability and where not all social costs are pushed to the creditor.

It would also be necessary, according to the critics of the austerity approach, to achieve a higher level of political integration, where there are possibilities for common taxation and fiscal transfers to balance out asymmetries, there is space for common decision making on economic government and the coordination of wages and social policies through a positive form of integration (Busch et al. 2013, 30). Another important step of further integration seen by many to be necessary is some form of common European debt management, a common euro-bond market, where, under conditions to avoid moral hazards and free riding, EMU member states would take joint liability for sovereign debts (De Grauwe 2010, 5).

The German government is so far seemingly immune to the criticisms and keeps representing its disciplinary position. The political pressure on the austerity consensus is growing, however. The popular contention against austerity programs and the leadership of the crisis management leads to political turmoil and radicalization of voters in many crisis countries. With more and more European politicians expressing concerns about the neoliberal reforms and their political consequences, even José Manuel Barroso said that austerity in Europe is close to reaching its political limits.

Even with pressure from outside is growing on Germany to change its policy course, a change is not likely without serious opposition of the austerity-position from within Germany. The main question of this thesis is thus, how entrenched is the German government's austerity position among the social forces in Germany? Does the government's position truly enjoy a hegemony and bears the support of a wide historical bloc or does it stir up conflict and struggles, the outcome of which could be a change in the position in the future from the current disciplinary neoliberalism towards a Keynesian counter-hegemony?

2. Explanations of the German position

The literature in political economy gives us many different theories that can contribute to answer how entrenched the German government's position is at home and what are the determinants of change in this position. The existing academic accounts on the German position on crisis management and economic governance, which go beyond a state-centered analysis and aim to explain the domestic factors of the position, have focused on elite ideologies and public opinion. In the following I will review this literature explaining the behavior of the German government and their potentials for explaining the strength of the austerity consensus. In the second part of the chapter I will argue that an approach based on the interests of major domestic economic actors can also contribute to the understanding of the German position and highlight relevant cleavages and conflicts that help to understand, how likely this position is to change.

When writing about the factors explaining the Merkel government's position, many analysts focus on the ideational traditions and continuities in German economic thinking, which have already influenced the design of EMU in the past (Berghahn and Young 2012; Hübner 2012; Olender 2012; Müller 2012). Ideas in such an analysis are understood as shared causal beliefs policy-makers about macroeconomic strategy, which help leaders choose between policy options in an environment of uncertainty, and which define the state 's interests in the given situation (McNamanara 1998, 4-5). These beliefs and values "function like a flashlight, guiding policymakers by illuminating a specific path through the darkness of crisis and confusion and provide policymakers with strategies for governance" (ibid, 58).

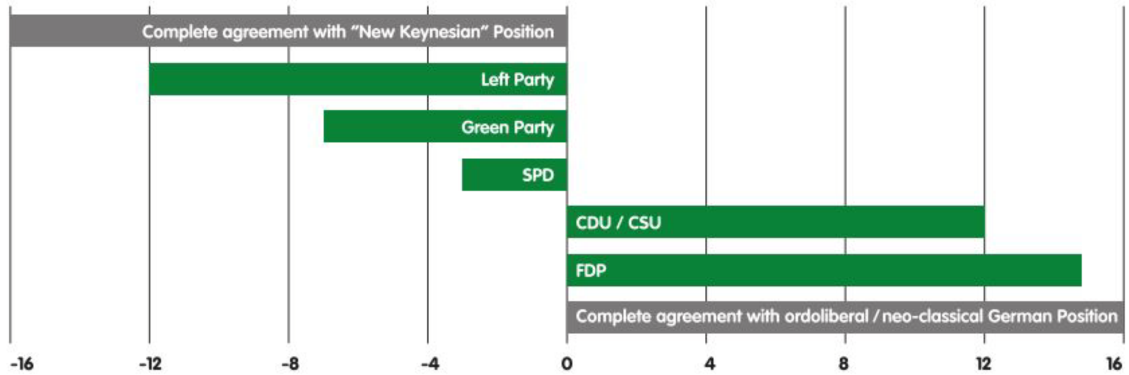
The idea argued to drive the German position on European monetary integration and now crisis management is connected to the economic philosophy of “ordoliberalism”[1]. According to this view, a rules-based regulatory framework or an “economic constitution’ should be set up to create a stable and calculable environment within which private actors can move freely without any discretionary political interference (Berghahn and Young 2012, 4). The ordoliberal ideas or *Ordnungspolitik* is originated in the Freiburg school in the late 1920s and early 1930s, and the members of which developed an economic thought were the free economy can only derive from political authority and has to be guarded by the strong state (Bonefeld 2012, 633-634). Most importantly the Freiburg school is credited with being the theory behind the Social Market Economy of Ludwig Erhardt (Berhahn and Young 2012, 3). The post 1945 reconstruction and the German economic miracle of the 1950’s was partially attributed to the ordoliberal ideas, giving these ideas very high legitimacy and creating a ‘culture of stability’ within Germany.

Through the policy influence of Germany on the whole European monetary integration, ideas of ordoliberal economists became standard policy practices all over Europe. The German ordoliberal model clearly influenced the institutional framework of the monetary union, with the non-political ECB modeled after the Bundesbank and with the Stability and Growth Pact providing the underlining rules and automatic procedures of fiscal coordination. The rules that German policy makers insisted on were a highly independent central bank concentrating exclusively on price stability, fiscal policies remaining at the national level with central rules ensuring sound public finances of each member and a rule making sure that no member state has to assume liability for the debt of another member, or as it is shortly called: a no-bailout clause (Mussler 2010, 50). Berghahn and Young argue that it is the legacy of this

[1] Although there is a debate between historians of economic thought whether anglo-saxon neoliberalism is different from German ordoliberalism (e.g. Bonefeld 2012) in this thesis I make no serious distinction, especially as many “neoliberal” elements of the EMU originate from ordoliberal thought. I thus use ‘neoliberal’ to describe the position of the Merkel government.

ordoliberal ideology among German policy-makers that explains the Merkel government's push towards the strengthening of EMU-level fiscal rules and its rejection of Euro-bonds and the more active intervention of the ECB by acting as a lender of last resort (2012, 9). Hübner also concludes that it is the German government's stubborn insistence on deep-seated ideatinonal norms about price stability and government behavior that lead to the kind of policy preferences expressed by the chancellor (2012, 176).

Dullien and Guérot maintain that the majority of German economists have been influenced by ordoliberalism at some point in their career, and its basic principles are consensual among the German economic elite. The influence of this economic ideology then filters into public administration, ministries and the Bundesbank, hiring mostly graduates of German universities (Dullien and Guérot 2012,2). This way these ideas get institutionalized in academia and policy-making. They also argue that this German economic mainstream, based on ordnungspolitik has influenced the thinking of all five major German parties, although to a different extent. Put on a scale with pure ordoliberalism on one end and new Keynesianism on the other, they place FDP's policy stance is closest to the ordoliberal extreme, followed by CDU/CSU, while the Left party and the Greens converging the other end, SPD being in the middle (ibid, 9).



2.. Figure: Ideological positioning of parties

Source: Dullien and Guérot 2012,9

The formation of German government's position in this framework would be explained by these shared beliefs among major policy-makers. Olender argues that the German position in crisis management is driven by two ideational commitments: to ordoliberal principles and to the European project (Olender 2012, 2). While the commitment to the latter is consistent, although often only implicit, the commitment to the former is relaxed in some cases and hardened in others. For instance the Keynesianesque management of the financial crisis in 2008-2009 discussed above is understood by Olender as a case when ordoliberal principles were relaxed or temporarily abandoned do to the urgent need to avoid the breakdown of the economy. This was more of an exceptional case, not a sign of a reorientation of policy paths, as the German government quickly returned to the ordoliberal principles, for instance with the introduction of the constitutional debt brake. Ordoliberal principles were hardened in order to restore and sustain domestic order, and because of the long term uncertainty posited by the situation in the Eurozone (Olender 2012, 8). The change is partially explained by a change in government in Germany, from an SPD-CDU/CSU grand coalition with social democrats in key economic ministries implementing Keynesian measures to a conservative-liberal coalition with the FDP. According to Hübner chancellor Merkel was reluctant implement the crisis management policies not fitting her ideational convictions and to take part in a "competition of stimulus programs" with other European states and (2012, 164) during her first term. After the elections in 2009 provided a much better coalition in terms of ideology, as the policy stance of FDP is much closer to that of CDU, and particularly that of Merkel (ibid.)

The ideational accounts do not consider the actual economic interests of actors in question, as their policy choices and decisions are motivated by beliefs and values. These might coincide with economic interests, but might also facilitate the redefinition of those interests. Olender in fact argues that the Germany has rejected proposals for resolving the crisis based on ordoliberal principles, even though these would have been beneficial for German exporters, despite fall in exports (Olender 2012, 9). But does the German policy on the crisis really go against the material interests of domestic actors? Since these ideational accounts focus on the community of policy-making elites in the electoral or in the bureaucratic-technocratic arena and do not deal with other societal actors, they cannot give answers about the entrenchment of the austerity consensus in the German society. These accounts have to be completed with an analysis of positions and interests of non-governmental actors in the economy, namely representatives of organized business and labor.

Besides elite ideas and beliefs, another factor that could shape German policy is the pressure of public opinion. Schirm in his analysis of the German and British government's preference formation about the 2009 crisis management argues that the positions and measures of the governments were at least partially influenced by path-dependent ideas and opinions of their citizens about the role of government and markets. He found correlation between the governmental action and rhetoric with the results of value surveys in the respective countries, which were also differing from each other in the two countries. (Schirm 2011,50). In the case of the Eurocrisis however public opinion comes into the picture in a more direct way. The Eurocrisis is a very salient issue in Germany, and with land-level elections in 2010, for instance in North Rhine Westphalia, and with the coming general elections in 2013, the public opinion would seem to be a meaningful explanation for Merkel's position. The German media pictured the Greek crisis as one of wrong government and fiscal irresponsibility, blaming Greece for its misbehavior that is endangering financial stability in the EMU. In this interpretation Germany would not have to take responsibility for others behavior and should not play the role of Europe's paymaster. Any kind of bailout plan was highly unpopular and Merkel's and her party's approval rating was tied to the EU negotiations on financial assistance (Jamet 2010, 12). Merkel and her colleagues now also have to face an anti-European right being challenge in the form of the freshly formed Alternative für Deutschland, which demands an exit from the Eurozone.

It is unclear, however what is the line of causation between the government's position and the public opinion about the issue. It is certain that the public support of the government is a determining factor of the German position, especially as the 2013 elections are approaching. Yet public opinion is in itself a variable that is affected by framing by the government and other "prime definers", members of certain elite groups through the media (Hall et al. 1978, 58). We should treat public opinion as an outcome that is correlated with the government's position, but which can be influenced by groups with certain vested interests. An in-debt analysis of the processes how different interest groups aim to influence public opinion exceeds the scope of this thesis. However it aims to identify the main interest groups who at least aim to influence the public sentiment and which gain or lose according to the public support of the austerity approach.

Such an approach would need us to investigate how the different sectors in Germany are affected by the crisis and by the recession prolonged by the austerity policies. Existing literature has not been amble in this respect.

According to Wolfgang Streeck that the interests of German business is simply to save the Euro, which means to keep the GIIPS countries in the Eurozone and keep them from default at whatever costs (2012). These costs do refer to the Northern surplus countries in providing financial transfers, but also to the Southern citizens in the form of austerity. However further differentiations can be assumed between German financial and productive capital, which relate to the effects of austerity. Both the German exporting sector and the financial sector was heavily entrenched in the crisis-hit countries through lending, trade and investment and both were experiencing hardships connected to the crisis, their future activities are differently affected by the austerity programs in the south. Continued austerity pushes the full costs of adaptation to southern countries, minimizing costs for taxpayers in creditor or surplus countries and minimizing the loss for banks lending heavily to these countries. However, the continued austerity will probably exacerbate a Eurozone-wide recession with high costs in terms of unemployment and loss of output (Chinn and Frieden 2012, 4), keeping the demand for German exported goods very low in its European markets. From this it can assumed that exporters would prefer policy positions that concentrate on stimulating growth instead of continued austerity.

Streeck argues that the monetary union is a vested interest of a coalition of core country exporters and the parts of the peripheral middle class which benefited from cheap credits in the Eurozone to buy the German export products (2012). However it is a question what happens to the coalition if one party, the southern middle class sees a decline in its income and available credit and possibly sees its part of paying the price to high or unacceptable. The logical conclusion of Streeck's argument is that German exporters should not only fight for keeping the Euro together but to support alternatives of crisis management and economic governance which focus on measures to boost economic growth instead or alongside focusing on reducing public spending. Others note that although austerity causes a slump in European demand for German goods, the exchange rate of the Euro went down as an effect of the austerity programs in Europe, which stimulates German exports outside of the Eurozone (Bibow 2012; Soros 2012).

While these studies present different and often contradictory perspectives about the economic interests that would support the German position, none of them focuses on studying the positions of associations and organizations of the capital in different areas of the economy.

There is even less discussion about the interests of labor in the context of the Eurocrisis. Streeck, when briefly analyzing the position of German unions on the Eurocrisis and the handling of it in southern countries concludes that the labor, along with German capital is only interested in saving the Euro and to continue the high volume of German exports to the Mediterranean countries, and has similar demands (the supervision of fiscal policies in these countries and the tying of assistance to debt reduction) as the politicians and technocrats of the EU (Streeck 2012, 69).

While these accounts can give better, although somewhat inconclusive insight into who is benefitting from the crisis management and economic governance pushed for by the German government, they cannot explain how entrenched this neoliberal position is. For that we do have to know which are the groups benefitting the most from the austerity, but also who are the potential losers, who might oppose or challenge the position. A study of the interests and positions of labor and capital in different sectors of the German economy can reveal the relations of these groups to each other and other actors and understand the anatomy of the social coalition which guarantees or questions the continuation of neoliberal path of Germany and of Europe.

3. Studying classes, sectors and fractions

3.1 Review of literature

In explaining trajectories of economic policy, most interest-based approaches study the key producer groups in the economy, defined either in terms of their relations to the means of production – or in other words their class – or in terms specific to the industries and sectors of the economy (Hall 1997, 179). In such terms we can identify conflicts and points of consensus or compromise influencing and shaping policy-making. Class-based contention means that workers, represented by their trade unions identify their interests and positions against those of capital, regardless of the differences between different industries. In sectoral conflicts we find cross-class coalitions divided along distributional conflicts competing for influence.

Many different studies have dealt with identifying how economic interest groups related to aspects of European economic integration. Reviewing these studies can help us in answering what kind of conflicts can be anticipated among actors of the German economy around neoliberal crisis management and economic governance, leading to hypotheses about the constellations of social forces which support or undermine the continued pursuit of the austerity approach by German governments.

Jeffry Frieden makes a differentiation about policy preferences of market actors based on the kind of assets they own and thus the sectors they operate in. He argues that as holders of liquid assets, like financial investors are more sensitive of general market conditions, they prefer policies aimed at securing the working of the market. Holders of fixed assets, such as factories or specific investment prefer policies benefitting their specific sectors, not generally, not necessarily at securing market conditions (Frieden 1988, 3). Despite this inherent sectoral difference, Frieden argues that holders of different assets prefer market-reinforcing policies against sectorally beneficial ones, when the normal workings of the market and of the capitalist economy are threatened, for example by a militant and radical labor movement (ibid.), or possibly a crisis. Austerity measures can be understood as such market-reinforcing policies as they are focused on regaining confidence of market actors.

Frieden also studies sectoral interests in the context of European exchange rate coordination and monetary integration (Frieden 1991; Frieden 2002). He argues that financial integration favors capitalists with mobile or diversified assets against those with specific and fixed ones, and will thus create a conflict of interest about transnational monetary integration (Frieden 1991, 426). Currency volatility increases the risks of cross-border trade and investment and the uncertainty about the prices important to those involved in the transactions. For this reason, foreign investors, lenders and borrowers prefer exchange rate stability, and they are expected to favor fixing the exchange rates as a policy priority. Import-competing and exporting sectors are assumed to prefer the state's monetary autonomy and oppose fixing the exchange rate, since exchange rate devaluation also makes the products of exporters more competitive on the international market and currency movements boost demand for local products. (Frieden2002, 839). There are conditions, however, when exporters are expected to side more with financial investors and prefer a stable currency and fixed exchange rate systems. Manufactured goods have a limited pass-through, meaning that appreciation of a currency does not cause analogous rise on the price of the exported good in foreign currency. This is because producers of automobiles, for instance fear losing market share, and hold their prices steady in foreign markets even if their own currency appreciates, carrying the exchange rate risk instead (ibid). Also, if the exporters of manufactured goods are multinational corporations with diversified assets and important investments and consumers in the same exchange rate zone, they also are benefitted by exchange rate cooperation and currency stability (Frieden 1991, 447).

Based on Frieden's findings we can assume that the German financial and manufacturing export industries have similar preferences in supporting the Euro as stable currency and would thus prefer saving the Euro. However austerity and structural reform is not the only way to achieve this goal, as the Keynesian critics of the German approach would argue. Sectoral[2] preferences about fiscal consolidation and structural reforms depends on how German finance and industry are affected by the crisis and the recession which results from the crisis management.

A different analysts of European Integration, combining theories of Gramsci and Polányi reveal a different divide between classes and class fractions that can help us understand the potential conflict between capital and labor about the crisis management and the future course of European integration. This divide is between the different groups' interests and preferences about the level of social protection and market discipline.

Neo-Gramscian scholarship view the neoliberal governance project of the EU discussed in the first chapter in term of hegemony, a type of rule by a class or class fraction that that relies on "a configuration of classes unified around a common definition of the general interest which demarcates the 'limits of possible' for society at large"(van der Pijl 2001, 187). In order to rule, the hegemonic class has to forge a unity between the economic, political and intellectual objectives of social forces under its leadership, with the passive or active consent of the ruled groups. This happens by articulating the interests of the hegemonic class in a way that goes beyond strictly particularistic conception of that interests and presents it at a universal level, concerning itself with the interests of other groups and presented as serving the wellbeing of the whole society and nation (Mouffe 1979, 181). The hegemonic project depends on the support of a historic bloc, a particular configuration of social groups providing legitimacy and stability to a hegemonic project. However, as Gramsci emphasized, hegemony can be challenged if some group, opposing the current hegemony can promote an alternative political initiative that challenges the mainstream and can gather political support to form a new historical bloc. This is what Gramscian scholarship calls counter-hegemony (Morton 2007, 92).

The neoliberal integration projects dominated by large, transnationally mobile and active firms and their representatives forging a historic bloc comprised of smaller firms and investors, the professional middle class and the more affluent fractions of labor, along with elements of the state apparatus (Gill 1998, 12). This hegemonic project is the result compromise between fractions of capital who argued that European integration has to promote global competitiveness and fractions of capital and labor who emphasized that further integration has to protect the achievements of the European social model (van Apeldoorn 2001, 76). Van Apeldoorn termed this compromise "embedded neoliberalism" which pursues global competitiveness, but recognizes the need for social protection, corporatism and welfare state, at least in rhetoric (ibid, 82).

The incorporation of organized labor into this project is especially interesting and puzzling. Although the neoliberal restructuring clearly redistributed power from labor to capital, European trade unions are often pictures in the literature as having been co-opted into the neoliberal restructuring of European integration, as Bieler critically points out (2007, 113). Instead of challenging it as part of an anti-neoliberal movement, unions participated in symbolic dialogues on particular policy issues of European policy, consenting further integration and restructuring from a 'yes, but' position (ibid.), demanding a social counterpart to the economic integration. Unions were also optimistic that internal market as a step towards political union, and later accepted the Maastricht treaty with a small gain of a social chapter (ibid.). As Hancké and Rhodes (2005) show, trade unions also actively participated in the wage restraint necessary to meet the Maastricht criteria in most countries aspiring to join the

EMU in the 1990s, either by the existing corporatist mechanisms in the coordinated market economies of core EU countries, or through tripartite social pacts and ‘competitive corporatism’ in the rest of the future Eurozone. Thus trade unions were part of the management of drastic social adjustments to the arguably neoliberal monetary union.

Since the introduction of the Euro, the historic bloc in support of this embedded form of neoliberalism has been destabilized by the fact that the negative integration to achieve competitiveness eventually confronts and undermines the corporatist and welfare institutions at the national level, subordinates the objective of social cohesion, and thus undermines the project’s effectiveness in unifying the contending social forces (van Apeldoorn 2008, 33).

Most affected by the triumph of market discipline and the search for competitiveness over social cohesion is organized labor. The EMU project is losing legitimacy among unions as they are “not getting their side of the deal”, and see the project of competitiveness go more and more against labor rights, job security and a social model (ibid., 36). As this trend is even accelerated and emphasized by the crisis management and the EMU reform and the social elements of integration are scaled back, pushing the integration project from an embedded- to a more purely disciplinary neoliberalism, a growing conflict can be assumed between labor and proponents of the neoliberal project.

The question is then, how do the social forces within Germany understand their interests in the context of the current processes within Europe and the Eurozone and what kind of conflicts of interests are spurred up by these processes and the German governments position. Is there a hegemony of the neoliberal position or is there a conflict between groups supporting the strengthened disciplinary neoliberalism of the current European governance, and groups preferring a new Keynesian alternative focused on stimulating growth and strengthening social cohesion. Most importantly, the question is if there is a counter-hegemonic project, a possible new constellation of social forces that can pressure politics towards a changed course of the German government away from the insistence on disciplinary governance and austerity towards a more Keynesian position? Or is there a true hegemony of disciplinary neoliberalism within Germany unifying all major fractions of the capitalist and the labor class?

3.2 Operationalization, research methods and design

To answer the questions about I pose three main conditions that I will address in my analysis.

1. The Merkel government's position has hegemony if there is a united capitalist support behind it and if the support or consent of organized labor is achieved
2. There is capitalist class support of the neoliberal crisis management and economic governance if the interests and preferences of the industrial and the financial sector collide, if a policy that is beneficial for one does not harm the profitability of the other. This depends largely on the German industry's ability to offset the losses from the European markets with exports to other regions.
3. The hegemony can be challenged if organized labor is united behind an alternative position and if it can gather support of its political partners.

I assume that there is little chance for change in the German governmental position if the austerity approach is hegemonic within among the German social forces.

In the following chapters I will examine if the conditions for hegemony of the neoliberal position are met. In this analysis I will rely on a research strategy that uses economic statistics and qualitative data to identify the interests and policy preferences of the different fractions of German capital and labor.

Through analyzing available economic data, official position papers, press materials and interviews conducted with representatives of these organizations I will identify the interests and motivations behind the positions and relations between the different groups. I chose to study classes and class fractions though research on these organizations, because their function is to unite actors within classes and sectors, formulate their preferences and articulate them towards the government and the public, making them the most appropriate source of such information. The analyzed documents were either available on the internet pages of the organizations, or were sent to me by employees of the organizations on request.

On the side of business I analyzed the documents of the German Chamber of Commerce and Industry (*DIHK*), The Confederation of German Employers' Associations (*BDA*), the Federation of German Industry (*BDI*), the Association of German Banks and the German Association of the Automotive Industry (*VDA*). All of these organizations represent firms from small and medium size companies to transnational corporations.

From the side of labor I analyzed the documents and official positions of the German Metalworkers' Union (IG Metall), Germany's largest union which represents blue and white collar workers in the machinery and motor vehicle industry; the United Service Union (Ver.di), the second largest union representing both public and private service employees; and the Confederation of German Trade Unions (DGB), the umbrella organization of German organized labor which coordinates the activities of the different sectoral unions, and of which both IG Metall and Ver.di are members of.

I could conduct five semi structured interviews: with representatives of BDI, VDA, IG Metall, Ver.di and DGB. The people interviewed where experts, mainly economists from the departments dealing with European issues, economic policy or statistics and forecasting within the national headquarters of their respective organizations. As they are involved in writing the positions of their organizations (if it has one), I treat their statements as representing these organizations, unless they claimed some statement to be their personal opinion.

4. German sectors: is there a capitalist position?

The purpose of this chapter is to examine of the conditions for a united capitalist support for the Merkel government's crisis management position are met. For that I will first analyze how the two main sectors of the German economy, finance and manufacturing industry are affected by the Eurocrisis, how their activities are exposed to the economic hardships of the debt crisis and the austerity programs. Later the policy positions and preferences of the main associations of German capital will be presented, through the analysis of official positions and interviews conducted with representatives.

The chapter concludes that there is a united capitalist position which supports the disciplinary neoliberal crisis management and economic governance. They emphasize the need to boost competitiveness in the GIIPS countries and in the Eurozone as a whole, for which more responsible fiscal policy and reforms allowing more market discipline are seen as necessary.

4.1 Finance and Industry: exposure and interests

The finance and complex manufacturing[3] sectors are the most transnationalized sectors of the German economy, deeply integrated into the global and European economy. As a consequence of the German growth strategy in the 1990s-2000s and the structural characteristics of the Eurozone, both the sectors built many economic ties to the countries now suffering from sovereign debt and austerity.

[3] motor vehicleproduction, mechanical engineering and electornics

During the 1990s and the 2000s, two events lead to a loss in competitiveness in Germany: the reunification and the entry to the Eurozone. The reunification of East and West Germany in 1990 resulted in a loss of 500 000 manufacturing jobs, the country lost its economic dynamism and entered into its sharpest recession since the Second World War (Economist 2012a). The Eurozone entry, because of the monetary mismatch discussed in the first chapter, real interest rates in Germany became higher than the Eurozone average, which led to the loss of previous comparative advantages (Scharpf 2011, 13).

As Kregel describes, the solution to the lost competitiveness and dynamism was to slow down wage growth below the productivity level, bringing down inflation to below that of the rest of the Eurozone. This boosted exports, but at the same time held consumption back and encouraged savings among Germans (Kregel 2011, 8). The gain in price competitiveness was the result of an internal real devaluation, achieved through the neoliberal labor market reforms of the Agenda 2010 in 2003, focused on reducing labor costs and making the labor market more flexible (Young and Semmler 2011, 10). Besides the positive effect for exporters and employers in general, who realized higher profits, the Agenda reforms brought growing wage inequalities and the appearance and spread of a low-wage sector (Dauderstädt 2013, 7-8).

The German wage moderation policies were part of the development of a great imbalance in competitiveness in the Eurozone as peripheral economies could not keep nominal labor costs rising at the same pace with productivity, as the Germans could (Young and Semmler 2011, 10). As their economy was in surplus and could be expected to stay that way on the long run, German firms and individuals were incentivized to invest their excess money abroad. The Eurozone provided great opportunities as the German surplus could be invested in other economies without the exchange rate risk. On the other hand peripheral countries like Greece needed investment and capital inflow, from which they could import goods for instance from Germany (Jones 2011, 331-332). This way, as Dauderstädt points out, capital outflows from Germany mirrored its export surplus (2013, 9). The result of this process in the whole of the Eurozone was that two distinct groups developed: that of deficit (Ireland, Greece, Spain, Cyprus, and Portugal) and surplus countries (Germany, Luxembourg, the Netherlands, Austria and Finland) with their surpluses and deficits mirroring each other (Young and Semmler 2011, 3). This process was the result of rational decisions of economic agents who read the incentives of their own policymakers and the monetary union and acted as they saw it best fitting their interests.

While their connections to the southern countries are similar and interconnected, the way in which the two sectors are exposed to the crisis is somewhat different. This, however does not lead to different preferences as far as crisis management and economic governance are concerned, as we will see soon.

4.1.1 Finance

The German banking sector was very much exposed to the sovereign debt crises of the GIIPS countries. German banks' exposure amounted to 94.4 € billion in 2011, according to Goldman Sachs (Boyd 2011). Among the banks most exposed we can find Germany's biggest and most internationalized private banks, Deutsche Bank and Commerzbank, with around 6.62 € billion and 13.2 € billion respectively, but also the smaller and partially government owned Landesbanken.[4] The highest exposure is by far to the sovereign debts of Italy, followed by Spain.

Although most German banks disposed of their holdings in the GIIPS countries or hedged against the risks, they are still heavily involved in many areas of the economy hit by the crisis besides sovereign debt, including banks and other financial institutions and businesses. This exposure made the German financial sector vulnerable to a deepening crisis

[4] , based on data from the European Banking Authority

and risks the excellent credit ratings of German banks and Germany as a whole (Wall Street Journal 20).[5] German bankers must have also been concerned about the possible contagion of the crisis from smaller countries like Greece to Italy or France, where they were much more active and have invested and lent out much higher amount of money.

The crisis management involving public players and taxpayer's money to prevent EMU breakup, combined with measures to quickly reduce public deficit and restore creditors' confidence thus serves the interests of the German and European financial sector. This can be also seen in the statements of the German Banking Association. According to president of the Association, Andreas Schmitz, rescue measures inevitable in saving the stability of the Euro as a currency, alone cannot resolve the crisis without quick and credible structural reforms, (Schmitz 2011). Rescue measures including a debt haircut by private actors should however be avoided according to Schmitz, as states will this way lose their creditors (ibid.).

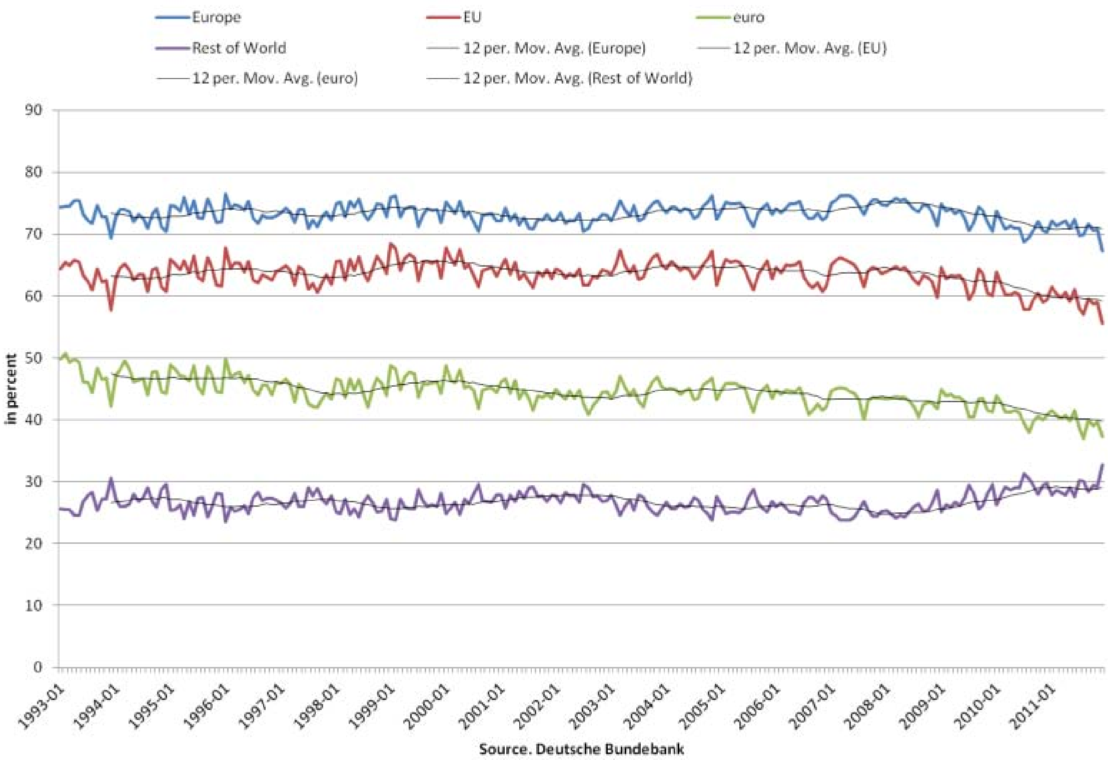
The interests and preferences of the financial sector can thus be seen to aim at maximize market discipline on states through financing the sovereigns while pushing all the costs of adaptation to the debtors. The aims of the EMU reforms also seem to meet the German banks' call to "put an end to the ear of debt-funded welfare state" and to "set a course for a future where prosperity is genuinely earned in a globally competitive environment and not bought on tick" (ibid.). Any moves towards a transfer union, like the introduction of Eurobonds is rejected by German bankers, since "it would reward bad behavior in the countries in crisis and set totally wrong incentives" (Bankenverband 2011), or in other words would limit market discipline on government's.

4.1.2 Industry

The German industrial sector does not seem heavily affected by the crisis. According to the report of DB research, German industrial exports boomed in 2010 and 2011, growing with 12% and 7.8% (2013, 16). It seems it was in 2012, when the effects of the Eurocrisis started to be felt in Germany: The Germany economy grew 3 percent in 2011, although it slowed down to 0.7 percent in 2012 (Financial Times 2012). The slowdown in the Eurozone is also felt by manufacturers within Germany. Automobile production in Germany has declined with 8% from 2011 to 2012, according to data from VDA (2013). General Motors Europe announced in November of 2012that Opel will cut 2600 manufacturing jobs in Germany do to the serious losses the company was experiencing in the third quarter of 2012 and is drastically reducing inventory to cut costs (The Local 2012a). Another automobile producer, MAN AG, part of the Volkswagen group stopped production for a week in its Bavarian factories in October as a reaction to falling demand for their lorries in Europe, as did Daimler for five days (The Local 2012b). However what these companies lose in Germany, gain it back abroad, as production of both Volkswagen and Daimler grew in plants outside Germany.

Outsourcing is one of the reasons that while some parts of the industrial sectors are negatively affected by the crisis in Europe, most major companies are thriving. Volswagen for example hit record sales in 2012 (BBC 2013). BDI reports about German exports increasing to “a new all-time high” in March 2012 (BDI 2012). The other reason for this thrive is the economic strategies of German firms concentrating on non-European markets, “abandoning” their previous trading partners in times of crisis.

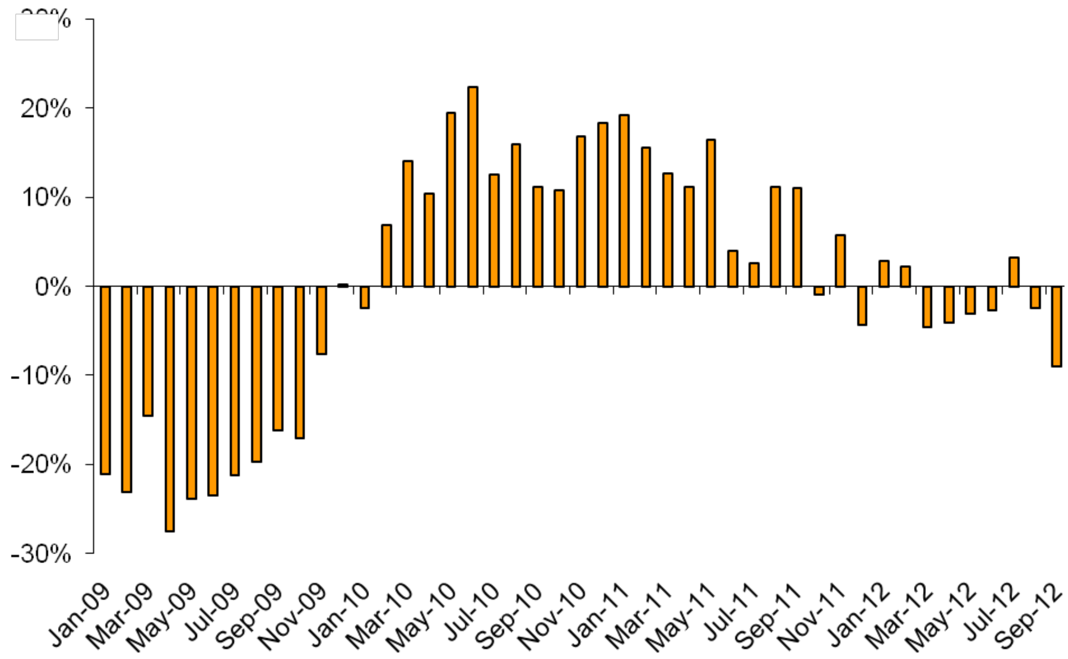
Although about 70% of German exports still go to Europe and little less than 40% to the Eurozone, exports to non-European markets have started to replace declining European demand, reaching 30% of exports and growing since 2011 (see Figure 1.).



1. German export destinations (percentage share)

source: Bibow 2012, 22

While in 2011 the EU was still the most important export market of German goods in 2011, as German producers sell almost 200 million Euro worth more goods than outside the EU, the trend is changing. As visible on Figure 2, german exports to the Eurozone have been decreasing in 2012.

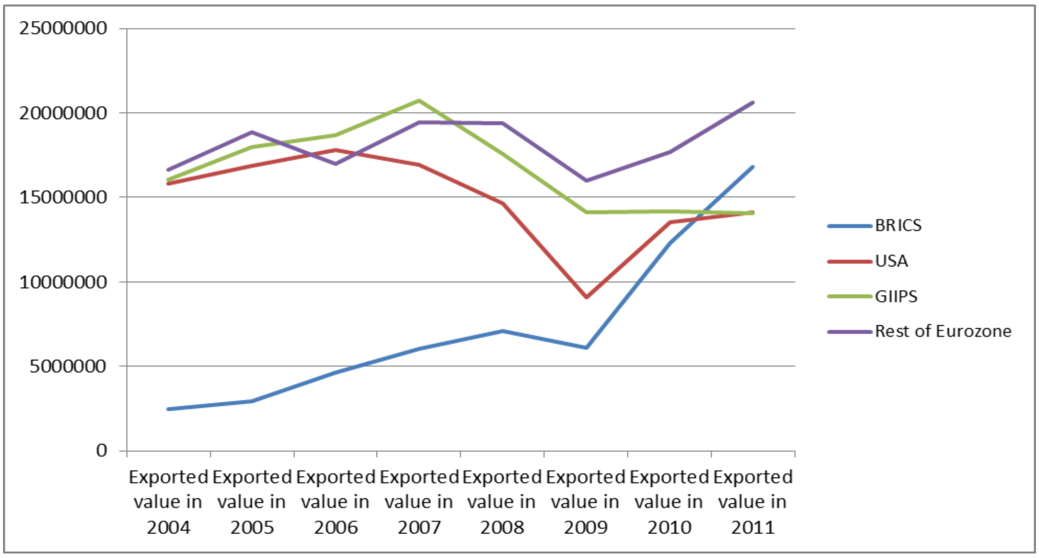


4, Figure: Development of German exports into Eurozone countries, as compared to previous year, in respective prices

Source: Statistisches Bundesamt

To see the changes in importance of different regions for German exports I looked at the two leading industries of Germany: machinery manufacturing and the automotive industry. These industries have the biggest weight in German exports, with automobiles and parts having a 17.4 percent and mechanical engineering a 15.2 percent share of German foreign trade in 2011 (Erber and Schrooten 2012, 20). In Figure 5. and 6. I show exports to four different regions: the BRICS countries representing the emerging non-European markets (combined values of export to China, India, Russia South Africa and Brazil), the United States and the Eurozone, divided into two groups, the GIIPS countries and the remaining EMU members. The graphs comparing the regions should show the changes in importance for German exporters.

In the case of vehicle sales we can see that the Eurozone was a prime market in the middle of the 2000s, with sales to the GIIPS even surpassing those to the rest of the zone between 2005 and 2007. In 2007-2008 however exports to both Europe and the US started to decline, not reaching pre-crisis in the GIIPS and the US in 2011. Meanwhile, exports to BRICS countries show a continuous growth, especially sharp after 2009, surpassing US and GIIPS sales in 2010. Exports to other part of the Eurozone are were rising again, even surpassing pre-crisis levels in 2011. With surging exports to BRICS markets, the core of the Eurozone is still the most important market for German cars.[6] There is however limited growth potential in the European markets, with EMU sales showing only minor changes, practically showing a straight line with some cyclical fluctuation.



5. Figure: German export of vehicles by destination (Euro thousands)

data: International Trade Centre

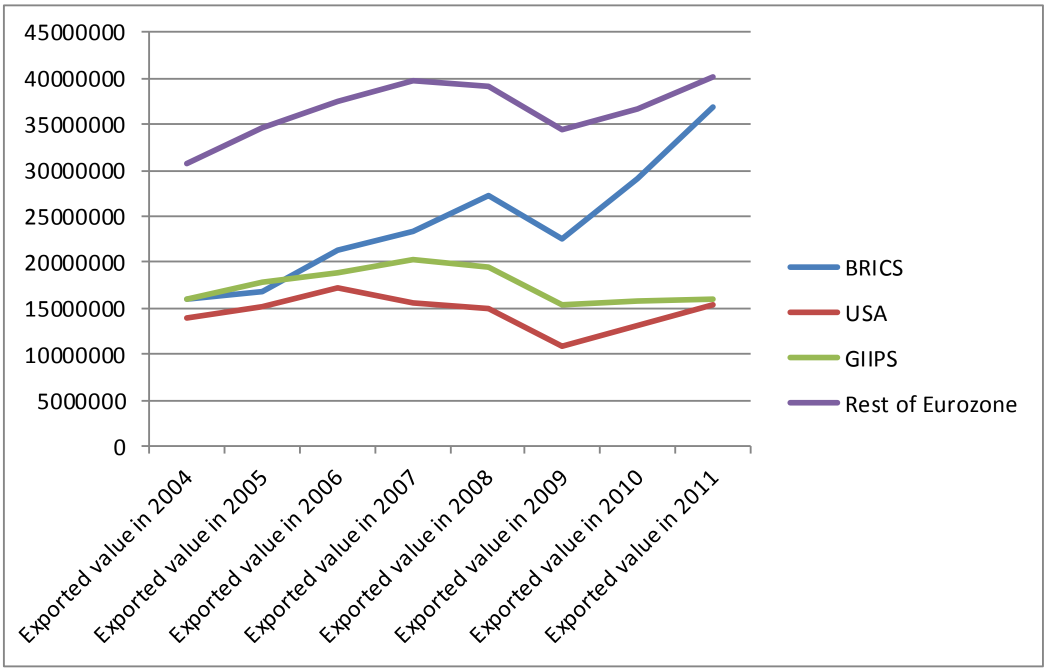
The picture is similar in the case of machinery exports. All regions studied show a similar curve, although export values to BRICS countries and the Eurozone without GIIPS are comparatively larger.[7] Exports to BRICS have surpassed those to GIIPS in 2005 and are on the rise since (Figure 6.).

From these two graphs we can conclude that the GIIPS markets were important markets for German exported goods, especially in the case of automobiles, where they were

6 The data presented includes countries that would not necessarily be part of the „core" of the Eurozone, but these countries are smaller markets, like Slovakia or Malta, thus I assume here that most of the exports go to western Europe

7 This most probably also has to do with the fact, that in this product category contains a wider range of products, than that of vehicles.

the most important market in 2006-2007 from the 4 regions studied here. In both the case of cars and machinery we see a similar rise and then fall and stagnation in imports from Germany. This fall is however compensated by exports to emerging markets in the case of cars, while in machinery these markets have been more important in sense of worth of exports since the mid-2000s. Although our data only shows the process only until 2011, the trend continued in 2012, as Germany exports hit a new record thanks to strong sales in emerging markets and the US. As the German Chamber of Commerce reports, in 2013 more than 60% of German companies were involved in the Asia-pacific market, and activities are growing in the Middle East and Latin America as well (DIHK 2013).



6. Figure: German export of machinery by destination (Euro thousands)

data: International Trade Centre

According to BDI, this strategy of relying on non-European export markets preceded the crisis, as it was visible back then that the growth markets are not in Europe any more (Interview with BDI). As my interview partner from VDA told me, this globalization of the German industry has been a trend in the last decades, with production abroad growing faster than in Germany since the 1990s, and exports from Germany also aim more and more towards overseas markets. This global strategy gives German industry, especially the automotive industry a competitive advantage against other European car manufacturers, especially the Italian and French companies, which still mostly concentrate on Europe as an export destination, and which are particularly suffering from the effects of the crisis and the austerity-induced recession (Interview VDA).

The reliance on emerging markets and the US market also benefits smaller companies working as suppliers of the large German automotive TNCs and the small “hidden champions”, companies working in very specialized niche markets of electronics and machinery (BDI).

This business strategy implies that German industry would not be politically interested in stimulus in these economies. In fact, for the transnationalized German industrial firms, Europe and the Eurozone is not only relevant as export markets (and is less and less so), but as part of their value-creation chain with production clusters beyond the German borders (BDI). As such, German firms are more interested in southern Europe as investors to relocate production and other business activities, not primarily as trading partners, which means that the investment environment, productivity growth and especially wage costs will be more interesting to them than purchasing power and demand for German goods.

German business leaders from all sectors and policy makers once again suggest their troubled European fellows to follow their strategy, gain competitiveness through wage austerity and fiscal discipline and compete on foreign markets with export products. As demand on large European markets, like the German is not growing and the continued austerity strategy, the hypothetical advice for the whole of Eurozone is to “freeload” on external growth (Bibow 2012, 36).

Some scholars see this strategy of Germany and the Eurozone to pose the threat of a beggar-thy-neighbor kind of competition between European countries, with each state trying to boost employment by forcing foreign trade and trying to shift the burdens of unemployment to its neighbors (Lucarelli 2012, 220; Bibow 2012, 36). But taking only German economic interests into consideration, this strategy is a viable option for Germany, supported by its institutional environment. Erber and Schrooten raise the question whether the reliance on fast growth in BRICS countries is a sustainable strategy for German business itself, as the institutions and infrastructure of these countries is rather precarious, which can jeopardize their growth in the long run (Erber and Schrooten 2012, 22). However, reliance on these markets for growth looks as a viable option for German industrial elites, which thus would have no problem to support Merkel's European policy of pushing the burdens of adjustment to deficit countries.

4.2 Positions and Preferences

The rhetoric and actions of the German financial and industrial sector demonstrate that they form a broad capitalist coalition in support of a common position on crisis management and economic governance, which is also in line with the position of the German government. This position has two main elements: the importance of saving the Euro and the necessity of structural reforms to achieve global competitiveness.

All accounts from representatives of German capital highlight the political and economic importance of the Euro. In a position paper the banking association writes that the breakup of the Eurozone and the return to national currencies would cause an economic situation which would be much different and worse than simply returning to the situation in the 1990s, before the introduction of the Euro (Bankenverband 2011). It is estimated that a return to the DMark would raise the prices of German export goods with about 30-40%, causing a huge loss in competitiveness of these products, leading to a near collapse of the German industrial sector (Interview IG Metall). Logically, a breakup of the single currency would also end the incentives of capital export and would mean complications with the repayment of existing cross-border debts. As Scharpf has pointed out, a breakup would (or would have been) probably followed with some countries declaring insolvency and would write down some of their debts, which would understandably mean heavy losses for the most exposed banks, among them the Germans (Scharpf 2011, 23).

This preference about an intact and stable Euro was expressed in the media campaign, when 50 executives of French and German corporations launched a one-page newspaper add in major French and German newspapers with the title “The Euro is necessary” (Jäger 2012). Among the German signatures are CEO’s of manufacturing giants like Siemens, BMW, ThyssenKrupp, Daimler, major financial firms Allianz and Deutsche Bank and energy provider EON. They argued that people should not listen to populist suggestions of excluding southern countries from the currency area, as the breakup of the Eurozone would have unforeseeable consequences. They acknowledge that to return to stable financial situation will cost billions of Euros, but the common currency is worth this sacrifice. The same argument about the political and economic importance of the Euro reads from the statement of the general manager of the German banking association, Michale Kemmer:

> One thing is plain: the end of the single currency would be in nobody’s interests. It would not only be a dramatic setback for European integration, but would also plunge the continent into considerable economic turmoil. So we must continue to make every effort to end the crisis and reform the currency union (Bankenverband 2011).

The initial actions of the second Merkel government did not completely meet this preference, as Merkel was trying to impede and could effectively delay the financial assistance to Greece in 2010, sticking to the no-bailout approach of the original Maastricht design (Mussler 2011, 53). This did change later, and the Merkel embraced a European approach of managing the crisis, with certain conditions. This change was probably influenced by the realization of the economic and political risks concerning German businesses, although there was no direct lobbying involved on the side of German capital, as I have been told by the representative of VDA.

> [T]he government itself realized that the failing of the euro causes big problems not just financially but politically and in terms of integration. Politics is strongly interested in keeping the euro alive and so are we. Not just because of the appreciation of the Dmark which might follow. The euro is not just a tool to increase competitiveness of the German industry, it's a political approach towards the integration of Europe, and therefore its of major importance to keep it alive.

All accounts from the German business groups do highlight however that the stabilization of the Eurozone would need more than bailout packages.

> Governments must use all available means to safeguard the euro, for no plan for growth will have real force until the present uncertainties around the Euro are resolved. However, financial assistance should not be provided without conditions, but must be tied irrevocably to national structural reforms and permanently solid government finances (joint declaration of BDA, BDA and French industrial association MEDEF, 2013).

Representatives of German (and other European) business interests share the view that the crisis in the Eurozone is caused by government's excessive deficit and lack of competitiveness, both of which has to be immediately addressed. It is sometimes acknowledged, for instance by my interview partner at the VDA that the deficits are a result of policies managing the financial crisis (which were in fact important in stabilizing the economy in 2008-2009), but still the question of long term competitiveness, expressed primarily in terms of unit labor costs is seen as the main problem. According to the two peak business organizations, this can be addressed with budget consolidation and comprehensive labor market reform, focusing on flexibility (BDA-MEDEF-BDI 2013). German business also supports and urges supply side reforms concerning retirement age and tax system efficiency, also to raise competitiveness.[8]

Both my interview partners representing capital referred to the Agenda 2010 reforms in Germany as a benchmark for the structural reforms for the South European EMU members and as the best example of painful but rewarding reforms. The Agenda 2010 does not only appear as an example for the content of reform – internal and external labor market flexibility, increasing the retirement age, expansion of low-wage sector (Dauderstädt 2013, 7) – but also in its political context, as a reform that was necessary and very hard, but which benefitted everyone.

> We can help them [the countries in crisis] in showing how its done. If you look back at the history of Germany, it was the sick man of Europe, 5 million unemployed, close to 10%, decreasing performance for almost a decade. Then in 2003 the Agenda 2010 was established. Its was a though process, it was really hard for the Germans to take this, because they had to give up on many privileges they had before, but as a result we are more competitive, we are able to be on the global markets present with good products, present with good prices and still able to maintain quite a good lifestyle in Germany. (VDA)

The position of German capitalist groups on the economic governance, EMU reform and the Keynesian-inspired alternatives is informed from this perspective as well.

BDI writes in its position paper that sustainable recovery needs a new treaty base, which completes political union that would provide an effective regulatory framework for stable public finances and competitive economy (BDI 2011). As my respondent from BDI told me, from the perspective of German industry, these reforms of the EMU must provide better incentives for structural reforms and help closer coordination of national reform planes. The strengthening of the Stability and Growth Pact and the Euro Plus Pact are good steps into this direction.

[8] personal communication, DIHK

The ideas of a transfer union or common debt liability (ie. Eurobonds) are generally rejected, as they would not give the right incentives and would lead countries to reduce their efforts to become more competitive. The same applies to Keynesian recommendations that Germany and other surplus countries of the EMU should take action to boost their domestic demand through higher wages, higher inflation and other measures. Such an approach would lead to Germany losing global competitiveness, which on the long run will reduce growth in Germany and also in its economic partners.

Concluding these two segments on the capitalist class fractions and their support for the austerity-based position of the German government on Eurocrisis we can see that there is no sectoral conflict between finance and industry. Both sectors are interested in the preservation and stability of the Euro as a currency and in structural reforms aimed at fiscal consolidation and structural reforms of the labor and welfare systems.

This position can be explained by the exposition of the sectors to the Eurocrisis. While banks are interested in the neoliberal crisis management to minimize losses on lending activities in southern Europe and Ireland, industrial firms support the austerity approach, because it is mainly interested in the southern periphery as investor and employer, not as trading partner. As demonstrated, German manufacturers, both SMEs and TNCs are relying on growth in non-European markets and thus are not hurt by the recession caused by the neoliberal economic governance strategy.

With the fractions of capital bound together by common interests, the question to analyzing the entrenchment of the disciplinary neoliberal position remains if capital can engage fractions of labor and thus generate hegemony. To answer this, we will analyze the positions of German organized labor in the next section.

5. German Labor : challenging or affirming the austerity consensus?

5.1 Interests, Positions and preferences

The current crisis undoubtedly puts pressure on unions in Germany, where the well-being of labor is highly dependent on the competitiveness and strength of the main exporting industries, yet they are also bound by international labor solidarity through European level labor organizations. It can also be argued that the EMU reform, which it strengthening the disciplinary and competition-focused elements of European governance against the social elements does hurt the interests of unions in the surplus countries as well, which could lead to objection beyond that induced by solidarity. It is also a question whether unions are united in one position and also in action, or are divided along lines between sectors exposed to international competition, like manufacturing and those sheltered from it, like services and the public sector. These factors will all be analyzed in this chapter.

As mentioned in earlier, Streeck argues that the interests and preferences of German labor and business in the industrial sector collide, in saving the euro, whatever the costs. Thus he claims that we are witnessing a cross class pro-Euro and pro-austerity coalition in Germany. While the segments cited by Streeck from a communique of IG Metall could allow such conclusions, a more detailed analysis of German unions' position leads to a somewhat different picture.

Never the less it is true that the greatest danger to German workers, according to the unions would be the breakdown of the Eurozone. The breakdown of the Eurozone as discussed above, would lead to a rise in the price of German export products by about 30-40%, according to the IG Metall. Such a rise would mean a declining demand for German goods and would lead to millions of workers losing their jobs in the most export oriented industries (interview with IG Metall). German unions were in favor of the common currency when it was introduces and are indeed in understanding with the employers and industry organizations that the Euro is to be defended. The unions in the more sheltered sectors are also pro-Euro, and appreciate the achievements of European integration that served as a vehicle of peace and economic growth in the past, which are connected to the common currency (Ver.di 2010). Hence German unions also express worries about the political costs of a Euro-breakdown, which might lead to the disintegration of the EU would affect Germany very seriously, including workers. But these are all, as Streeck notes as well, interests that connect capital and labor in Germany. However there are some interests and demands that are specific to the positions of German workers and, which drive their position on the crisis management measures and economic governance plans.

The austerity measures and structural reforms bring a lowering of standards and increased pressure in unions in the peripheral countries. As my interview partner from the DGB explained this pressure on working standards, wages and unions' rights and power holds dangers for German unions in many ways. First of all such pressure is harmful for the international union movement as a whole, and international solidarity demands German unions to raise their voices. They do live up to this obligation, for example in a joint statement with Spanish union federations, rejecting the proposals for weakening collective bargaining and criticizing the European Commission's economic governance approach (DGB 2011a).

Secondly, the lowering of standards and wages gives arguments for further liberalization lowering of social protection and wages within Germany as well to improve competitiveness. "[I]t is a matter of time before [employers] say in Germany as well that we have to do something about our wage costs" (DGB). According to my interviewee at DGB, this effect is already noticeable, as economic experts started arguing in the German press against one of the main claims of the unions, the statutory minimum wage on the basis of loss of competitiveness. A similar opinion was expressed in my interview by the representative of BDI: “what we [Germany] need is Agenda 2010, very ambitious labor market reforms, wages following productivity and so forth, and not get to happy about our situation right now. the southern countries are doing reforms and we are probably not doing the right reforms at the moment”.

The German organized labor expresses very different opinions about the Agenda 2010 reforms, which influences their domestic demands and their position on the Eurocrisis as well. As Bruff describes, the Agenda 2010 was a series of rapid, state-led reforms carried through against unions objection after the government was unable to broker a compromise between labor and employers, and were met with fierce industrial conflict and strikes (Bruff 2010, 416). At the domestic front the re-regulation of the labor market, the end to the spread of low wage jobs and precarious employment – which were a deliberate result of the reforms – is a main demand for German unions, emphasized in all position papers. The fact that the German labor market liberalization is presented as a best practice to follow hinders the efforts of German unions at home. There is also fear of a race to the bottom in social and wage policies, as the reforms are not supplemented with coordination in minimal social standards (Ver.di 2010, 25).

The economic governance measures harm the interests of workers and unions in two main ways. One part of the economic governance initiatives, the Fiscal Compact and the Six Pack effect fiscal policies and public spending. German unions are against these measures promoting austerity on the basis that such rules make the necessary growth programs and anti-cyclical policies impossible (Ver.di 2010, 17; IG Metall 2012, 8). DGB’s main concern is that By putting pressure on governments to bring down public spending, these fiscal measures, which effects the financing of the welfare state and the an encourage the privatization of social services, hurting social groups depended on these services, such as workers (DGB). The unions are also against the balanced-budget rules which the signatories of the Fiscal Pact are obliged to amend their constitutions with and which are also demands of business interest groups. Germany already enacted such a constitutional debt brake, which the union federation opposed in an official position (DGB 2011b).

Other parts of the economic governance, which are geared towards competitiveness (such as the Euro Plus Pact) and handling macroeconomic imbalances affect more wages and wage setting systems more directly. As discussed in the first chapter, apart of managing macroeconomic imbalances the European Commission could be more directly involved in wage setting as it would monitor unit labor costs and other macroeconomic data and advise governments to correct imbalances if deemed necessary. This kind of interventionism is however completely rejected by unions as it interferes with their rights for collective bargaining (IG Metall). This threat of interference is especially worrying for German unions which understand collective bargaining autonomy very strictly and who are not used to government involvement in wage setting. But even in countries where the government is involved in collective wage bargaining, the kind of dictate that this economic governance measure implies is deemed unacceptable.

While they are criticizing the economic governance measures proposed by the German government or the European Commission, there is a consensus among unions that some sort of economic government, coordination of fiscal policies on the European level is necessary. This economic government or governance demanded by organized labor should be based on more democratic legitimacy and further political integration, giving increased power to the European Parliament in EU legislation (IG Metall 2012, 13). The unions also have different proposal for institutions and mechanisms that can stimulate the European economy through investments. The kind of economic governance proposed by unions is thus more Keynesian than current proposals, and is closer to the French understanding of a politically driven economic government than the technocratic, rules-based German understanding (Ver.di 2010, 13). More wage coordination to handle the imbalances is demanded, but unions propose European-wide collective bargaining systems, which would make unions integral part of the management of the currency union. Such mechanisms have been already developed by sectoral federations, such as the European Metalworkers Federation (IG Metall 2012, 9).

When asked to evaluate German leadership in crisis management, my interview partners separate two distinct phases. Unions were satisfied with the way how the first Merkel government handled the repercussions of the global financial crisis, and were also involved in designing crisis management measures very much. The unions, especially IG Metall were the designers of two of the measures which helped to stabilize the economy in 2009-2010. The first was an automobile scrapping scheme designed by IG Metall to create demand for cars, by which customers could get state subsidy up to 2500 Euros to buy a new car. Another important measure was the Kurzarbeit program, which allowed workers to keep their jobs even if they did not get work at the time because of decreased demand and still get 67% of their salaries, and allowed employers to keep these workers, as part of the costs of the program were paid by the state. These measures were all initiated by the trade unions, and they were also invited to the discussions about how to implement them. In this way trade unions were, along with employers' organizations part of the German state's crisis management mechanism. "This was success for the German social model: we have a big problem, we will solve it together, employers, unions and the government" (IG Metall). These measures had of course the consequences that public spending and unit labor costs in Germany went up, since the programs involved government investment and since people got salaries (if reduced) without working, thus productivity went down. However massive growth of unemployment was avoided, the economy could be stabilized and GDP growth quickly returned to pre-crisis levels.

The second phase of crisis management is the German involvement in the managing of the Greek and other crises after 2010. My respondents expressed consternation about the fact that the German government made a 180 degree turn in its policy approach, took and still takes a very strict neoliberal line, pushing government in Europe to do the complete opposite of what worked in Germany: decrease government spending, decrease unit labor costs, cut wages and concentrate on balancing the budget.

The union position about the role Germany should play is similar to the Keynesian critiques', who argue that to tackle imbalances, Germany and other core countries should boost their domestic demand by raising wages, thus boosting imports from the periphery. DGB writes that surplus countries need to act as cornerstones of growth and kick-start the European economy by curbing their low-pay sector, boosting public investment and increasing wages. Deficit countries on the other hand need to consolidate their budgets, but not through austerity but by increasing the tax base, especially through effectively taxing wealth (DGB 2011c, 15). My interview partner informed me that IG Metall has calculated the increase of domestic demand into their next rounds of wage negotiations (demanding 5.5% increase in the metal and electronics sector), however the results of the bargaining will probably be lower (about 3.2%) , leading to little boost effect. German unions are also strong proponents of joint debt liability and introduction of Eurobonds, being practically alone with such a position in Germany.

In conclusion of the interests and positions of German unions expressed in official position papers and by the policy experts of the unions I interviewed we can argue that German unions provide an opposing analysis to the German government and mainstream discourse o and represent a Keynesian alternative to crisis management and economic governance. My findings show that German trade unions reject the neoliberal crisis policies of the German government and that this rejection is not only driven by their moral duties towards their southern European and Irish partner unions, but are understood as the interests of German workers and are in line with their demands on their domestic front. These demands are connected to the articulation of the importance of social cohesion and protection against the constitutionalization of austerity in the name of global competitiveness. To put it in the terms of neo-Gramscian IPE, crisis management is seen to undermine the compromise of the hegemonic project, embedded neoliberalism by the retrenchment of the welfare state, attacking workers' wages and labor rights and attacking the position of unions in the GIIPS countries, which is feared to lead to a race to the bottom for German labor. The economic governance measures are seen as strengthening the trend of moving from an embedded to a more market-radical, neoliberal governance regime, which enforces the radical disciplinary austerity to the whole of the European Union.

5.2 Constraints of a counter-hegemony

Although unions present an alternative to the neoliberal position of the German government, there are many obstacles both within and without that keep organized labor from becoming a force of counter-hegemony. With their proposals they are competing with other lobby groups and have only limited influence on the government and party policies. While they can find powerful allies in the domestic political front in some questions and demands, they remain in minority position against the austerity politics. Also, vertical and horizontal divisions and tensions within the union movement seem to hinder the unions in effectively challenging the austerity consensus.

German unions experienced a drastic change in influence on government policy, as described above in detail. While they were one of the most influential players before 2010, with the changing government and rhetoric unions are in the minority position. According to my interviewee at IG Metall, the change in union's influence and also the change in governmental position has to do with the results of the 2009 elections. Aforementioned anti-cyclical crisis management policies were designed and implemented before the general elections in 2009, when the government was run by the grand coalition of CDU/CSU and SPD. In the grand coalition both the ministry of finance and the ministry of labor was ran by politicians from the SPD. The new government was however based on a coalition of CDU with liberal FDP, which strengthened the ordoliberal ideology of the government and blocked (and keeps blocking) union proposals.

As German unions are non-partisan and have well established communication channels and frequent dialogues with all political parties (except FPD) they could effectively lobby regardless of political colors, but their success and influence is very much issue dependent. IG Metall is for instance in frequent discussion with CDU about certain policy areas, such as industrial policy and financial regulation. The regulation of the financial market and the introduction of a financial transaction tax is a major demand of unions, and they are able to lobby the government successfully in this issue. There is convergence of positions between CDU and unions in another main demand, the introduction of minimum wage. However, on the questions of European crisis management and "growth policy" they have become diametrically opposing each other.

The position of organized labor on the crisis management and EMU reform is probably the closest to the pure new-Keynesian position described by Dullien and Guérot, closer (2012, 9). Based on their evaluation, then the Linke would be the closest to the union's position, followed by the Greens and SPD. The Linke is in fact the only political party in the German parliament which is opposed to the austerity approach of Merkel and which voted no on the economic governance pacts. SPD – which, according to my interview partner from IG

Metall is trying to regain moral legitimacy by criticizing its previous reforms under the Schröder government – is currently emphasizing a more growth-based approach on European issues, and. When it comes to voting, however, SPD is quite inconsistent between the austerity approach and the growth approach, voting yes to the fiscal compact opposed by unions and withdrawing support from the Eurobonds issue (Barysch 2013). My respondent at Ver.di also pointed out that for SPD, as for most of Europe's social democrats it is difficult to confront the neoliberal approach of the government, because they were part of it with the Agenda reforms. The Green party also voted yes on the Fiscal Pact along with SPD, even though in rhetoric it is against the Europe-wide austerity. As my respondent from Ver.di said, there is an "all-party coalition" of the current crisis management position. His colleague from IG Metall shared similar views, claiming that other than the Linke, all parties can be considered to be neoliberal to some extant. Hence in the issue of economic governance, the trade unions are without a clear political ally. The SPD and the Greens however support the unions' demands about financial regulation and the Tobin tax, so the relations between opposition parties and the unions cannot be evaluated to be conflictual.

The relations with business interest groups is also not easy to define. While the positions on the eurocrisis and the future of European governance are almost diagonally opposed, my respondents did not mention a conflict or confrontation with employer's or industry associations on the issue, yet they are not partners either. In fact a common point of critique was emphasized by my respondent from IG Metall: the question of interference into wage bargaining. Officially employers' organizations share the unions' position that the Commission should under no circumstances attempt to intervene into wage setting negotiated between social partners (BDA 2013). Yet, as my interviewee told me, when governments in the GIIPS countries do interfere with wages and limit the coverage of collective bargaining agreements to meet the recommendations of the Troika, German employers stay silent (IG Metall).

Unions and business organizations find themselves on opposing sides of other issues, for instance the issue of financial regulation, although in this question the representatives of industrial capital do not play a significant lobbying role, according to my respondent from DGB. There are official meetings when the sides of labor and capital can represent their different views and try to influence policy makers, such as the parliamentary hearings before legislative decisions on issues related to crisis management, for example the rescue measures, where unions and business organizations are invited as experts commenting on the issue. Unions also have informal meetings with policy-makers, debates, lectures, other events, where unions can represent their alternative position, yet in this they are only one of the many lobby groups competing for influence. Industrial groups, such as BDI has a similar, if not closer correspondence with the government. BDI was even invited by the government to organize business summits in the GIIPS countries paralleling summits of Merkel and the government of the given country.

These ambiguous relationships towards parties and employer's organizations also originates from the unions' structural position as an integral part of the governing of the German economy. While organized labor opposes the positions of capital and political parties in some issue and some levels, they are in a daily correspondence and partner relationship on others. The subsequent cooperative attitude or pressure hinders unions in effectively challenging the hegemonic position. It seems that its ability to influence policy is dependent on the goodwill of its political partners, not on its own abilities or strength as a movement or a social force.

Another way of representing an alternative is to advocate their views towards the public and influence attitudes and opinion, which is equally important to my respondents and as a political activity of the unions. The most important way to do this is to convince the rank-and-file members of the unions at the workplaces. The two largest unions, IG Metall and Ver.di represent over 4 million workers together, who's position the organizations are supposed to represent. However the process if rather top down: experts in the union's headquarters draft the proposals for official positions, which become official through the executive bodies' votes. After this process, however, the position has to be channeled to the represented workers.

> We have to talk to our members and our works councils to explain our position and to give support how they can argue in the company and how they can be involved in discussions. This is our main channel. I do this on a regular basis. Yesterday for example I was in western Germany, where I was invited to talk to the members of the local union for 2 hours about the Eurocrisis, explaining our position. We can write papers here but it has to do with the members, they have to think this is the right position. And we have to argue our hearts out with our members. (interview with IG Metall)

In these arenas, union representatives have to battle the mainstream understanding of the Eurocrisis, shared by business and the government as a problem of irresponsible government behavior and the often offensive stereotypes spread in the German media about the "lazy" southern Europeans, who do not deserve the help of the hard working Germans. Union experts present their alternative explanations of the problems of the Eurozone, one resulting from the financial crisis and the design of the EMU, and present arguments against the mainstream stereotypes and for joint debt liability, need for growth in the south and against the austerity oriented economic governance measures. Yet this is a slow process which can hardly match the mainstream media in framing the issue. The result is a horizontal divide within unions between the experts and leaders in the headquarters and the rank-and-file, with the latter not necessarily sharing the official position of the unions.

Also, according to the same interviewee, because of the membership structure of the industrial unions IG Metall and IG BCE, the chemical worker's union are controlled by the members of the companies worker's councils. These council members are embedded in the companies' management, members of the executive boards, and are thus their interests collide with the management's interests. The influence of work councils is not so strong in the service unions.

This difference also creates a vertical divide within the union movement between exposed industrial and sheltered service unions, which seems united based only on the official positions. With the industrial sector booming despite the Eurozone crisis, workers in the export oriented manufacturing firms have a lesser sensibility towards the crisis, at least according to my respondent at the sheltered sector union.

> We [Ver.di] as a union organize a lot of public sector workers, and they see exactly that the austerity approach will sooner or later affect Germany as well, because we have the debt brake, and its just a question of time before the government starts saying that we need to cut public spending in Germany as well. They [public sector workers] have a better feeling of what is coming up in the next years and see the parallels. This is not what we see with industrial workers unions.

In the view of this respondent, the industrial unions are more passive in articulating their positions.

> IG Metall has the same position [as Ver.di] but they are not communicating it. If we are talking about political lobbying and communication, Ver.di is quite active as a critique of austerity, but this is not the case for IG metal or IG BCE. They are not communicating their critics to austerity in an offensive way. They have their papers and that's it. (Interview with Ver.di)

These claims are not confirmed by my interview with the representative of IG Metall, who argued that IG Metall is taking part in advocating its position both towards policy-makers in and outside of Germany and holds it a main priority to convince members, as discussed above. Also the evaluation of activity in the representation of the positions is rather subjective. However the fact that these kind of accusations and mistrust were articulated by high ranking unionists show that relationships between different sectoral unions are uneasy, making it difficult to organize a counter-hegemonic project at the national and class level.

Conclusions

The aim of this thesis was to explore the entrenchment of the German government's austerity-focused position among the main interest groups of the German society. By presenting and explaining the positions and motivations of fractions of German capital and labor in supporting or opposing the austerity-consensus of the Merkel government, it aimed to add an interest-based and societal account to understanding the German position on the management of the Eurocrisis and the reform of EMU, and explore the possibility of a change in this position.

Informed by neo-Gramscian writers on European political economy, I conceptualized the neoliberal phase of European integration and a hegemonic project: a type of rule formed around the interests of a hegemonic group or class fraction connected to the sphere of production and practiced through the consent of other groups, forming a historical bloc in support of hegemony. The economic governance pacts of the Fiscal Pact and the Euro Plus Pact, along with other measures were presented as the continuation of the hegemonic project of neoliberal governance which started by the plans in the 1980-s.

The main question was whether the neoliberal position represented by the Merkel government is hegemonic within Germany, meaning that it enjoys the support of a historical bloc consisting of a united business class and at least fractions of labor. It tested the existence of this hegemony through analyzing the interests and policy preferences of the two most important sectors of the German economy, finance and industry, and of organized labor in connection to the Eurozone crisis.

Analyzing the exposure and interest of the economic sectors, I found that both finance and industry support the government's position as both sectors benefit from the fiscal consolidation and structural reforms in the GIIPS countries, just as from the reforms of

European economic governance. Both sectors would experience tremendous losses in case the Eurozone would break up, thus both support measures to calm financial markets and avoid the bankruptcy of an EMU member state The German financial sector, which is one of the main creditors and bondholders of the GIIPS countries, and as such are interested in minimizing losses on these activities. The export oriented German industries, especially the automotive industry can offset losses in the European markets by focusing their exports to non-European markets with better growth prospects. They are however interested in the competitiveness of their European value chains, and are potential investors in the GIIPS countries, thus benefitted from austerity and labor market reforms in these countries.

As presented in the paper, the German organized labor is far from affirming the austerity-focused German government position. Unions oppose the austerity-focused crisis management which harms union interests by the retrenchment of the welfare state, cuts in wages and worker's rights, and weakening of unions in the GIIPS countries, which is feared to lead to a race to the bottom for German workers. Instead, German labor present a consistent and detailed Keynesian policy alternative to the government position both in the national and the European level, which can be traced through the official policy positions and manifestos of the trade unions both in the exposed and in the sheltered sectors. Labor unions in industrial and service sectors agree on their critique of the austerity and structural reforms in the GIIPS countries and at the EU level as well, and present an approach embedding the economy in a democratic, EU-level economic government, strengthened social dimension and reinforced mechanisms of social dialogue.

However, labor faces many constraints in forming this critique into a counter-hegemonic project, both in its political environment and within itself. In influencing government policy it is only one of the lobby groups which experiences particular disadvantages vis-à-vis other lobbies with the current conservative-liberal administration. It's important role in managing the German economy and its cooperation with structurally more powerful partners, both political parties and employers' organizations in many issues hinders unions to articulate opposition in other questions, such as the management of the Eurocrisis.

Although unions are united in their position at the higher levels of union hierarchy, there are signs of both horizontal division between rank-and-file members and the white collar staff and leadership of the unions, and vertical divide, a vertical divide between sheltered and exposed unions. These divisions hinder the German organized labor as a social force in advancing a counter-hegemonic position challenging the neoliberal mainstream of the crisis management and EMU reform.

Hence the conclusion of this thesis is that while the disciplinary neoliberal stance on the Eurocrisis and the future of the economic union seems to lose momentum in Europe, the Merkel government's position is hegemonic without serious opposition within Germany.

Although there is only speculation about the possible results of the federal elections in the coming September, there is little chance for a serious change in the governmental stance. The latest polls suggest that the most likely outcome will be a grand coalition, and SPD is somewhat more opened to the Keynesian alternative, my respondents were skeptical about the possibilities of major turn in the position towards crisis management. As my interviewee from Ver.di speculates "maybe [there will be] an SPD-CDU coalition, but in such a coalition SPD would be the smaller partner, and the question is what can they achieve like this. Lets wait and see."

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